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Third Semi-Annual Report

January - July 1988



Commonwealth of Massachusetts

A. Joseph DeNucci, Auditor

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The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

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Office of the State Auditor
A. Joseph DeNucci, Auditor

Semi-Annual Report
January - July, 1988

November 1988

Authority and Responsibilities

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His Excellency Michael S. Dukakis

Honorable William M. Bulger

Honorable George Keverian

Honorable Patricia McGovern

Honorable Richard A. Voke

Honorable Members of the General Court:

I am pleased to submit herewith the third Semi-Annual Report of Audit Results and Activities of the Office of the State Auditor.

My emphasis in this report is on corrective action. This reflects my view of the importance of the Auditor's role as a catalyst for program, fiscal, and administrative improvement in state agencies through audit report recommendations, specialized technical assistance, and legislative initiatives. Since the majority of audit entities have acted on OSA recommendations and substantially improved their financial management, I have expanded and highlighted the sections delineating agency reforms and corrective action taken in response to OSA audit results and recommendations. I have also included a section on the OSA legislative initiatives which supplement individual audit results and recommendations, suggesting comprehensive corrective action in areas of the most common audit results. The report continues, of course, to present a complete review of audits issued during the report period (January through July, 1988) organized by category, systemic and common results, and recommendations and initiatives.

Copies of individual audit reports and information relative to legislative proposals that I have filed are available through my Office of Intergovernmental Relations (727-2075).

In submitting this report, I would like again to thank the members of the Legislature and, in particular, the Ways and Means Committees, for supporting my initiatives. I look forward to continuing to work with you to improve the quality of state government and the services that the Commonwealth provides to its citizens.

Sincerely,

A. Joseph DeNucci
Auditor of the Commonwealth

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A. Joseph DeNucci, Auditor

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Office of the State Auditor Authority and Responsibilities

The Office of the State Auditor (OSA) operates under the direction and control of the State Auditor, an independently elected constitutional officer.

It is the responsibility of the OSA to furnish the Governor, the Legislature, auditees, oversight agencies and the general public with an independent evaluation of the various agencies, activities, and programs operated by the Commonwealth. The State Auditor is mandated, under Chapter 11, Section 12, of the Massachusetts General Laws to conduct an audit at least once every two years of all departments, offices, commissions, institutions, and activities of the Commonwealth, including its court system and authorities. Not including special audit projects, the number of entities requiring audit coverage totals approximately 750. The Auditor also has authority to audit the thousands of vendors under contract with the Commonwealth and its instrumentalities, as well as federally aided programs. In addition, the Auditor is responsible, under Chapter 11, Section 6B, of the Massachusetts General Laws, for the Division of Local Mandates, which is charged primarily with determining the financial impact of legislation on cities and towns.

The OSA conducts financial/compliance audits, economy/efficiency audits, and

program results audits in accordance with the U.S. General Accounting Office's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions," known in the profession both as Generally Accepted Government Auditing Standards (GAGAS) and as the Yellow Book standards.

OSA audit activities include:

- Attesting to the fair presentation, accuracy, and reliability of an auditee's financial statements;
- Determining whether the Commonwealth's resources are properly safeguarded;
- Determining whether such resources are properly and prudently used;
- Determining an auditee's compliance with legal and regulatory requirements;
- Evaluating management's economy and efficiency in its use of resources;
- Determining and evaluating a program's results, benefits, or accomplishments; and
- Ensuring that all audit results are fully disclosed to the public and the auditee.

All OSA audit results and recommendations are intended to assist agency and program administrators by indicating areas where accounting and administrative controls, financial operations, program results, and efficiency and effectiveness can be improved, and by providing technical assistance where appropriate. An important step in the OSA's conducting of an audit is the exit conference, in which the auditee is given an opportunity to respond to the audit and its recommendations. In short, the OSA is not simply a critic; but an agent, an advocate, and a catalyst for improved management and delivery of government services.

Audit Results, Recommendations, Initiatives, and Corrective Actions: Overview

During the report period, January through July, 1988, the Office of the State Auditor issued 149 audit reports covering: Authorities, human service agencies, educational entities, and various other state activities. (For a complete listing of audit reports, see Appendix I on page 71). In these reports, the OSA not only disclosed financial and operational deficiencies totalling \$1,667,592, but also provided recommendations intended to safeguard the Commonwealth's assets and to improve the effectiveness and efficiency of governmental operations.

Each type of entity audited by the OSA is governed by particular laws and regulations; is required to maintain financial records properly; and, of course, is expected to operate economically and effectively.

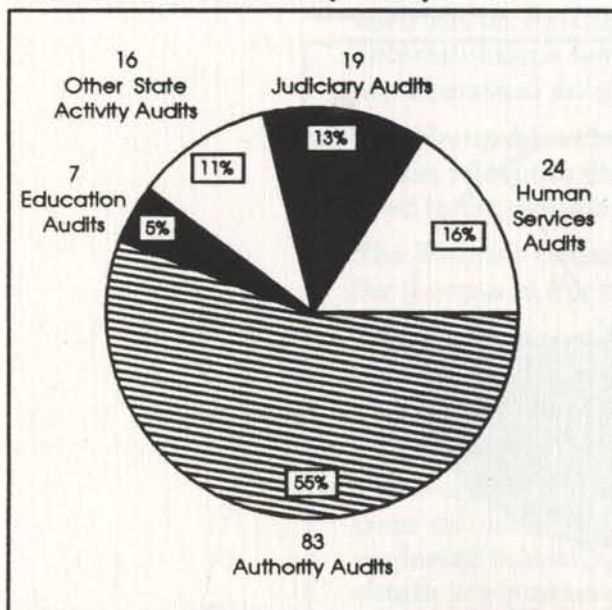
OSA audits are not intended to sensationalize, but to present an accurate appraisal of financial management, legal compliance, and, where appropriate, program effectiveness.

Audit results and recommendations are important to auditees, and in a majority of instances auditees have indicated a willingness to take appropriate corrective action. Audit results, when viewed in the aggregate, give focus to problem areas for legisla-

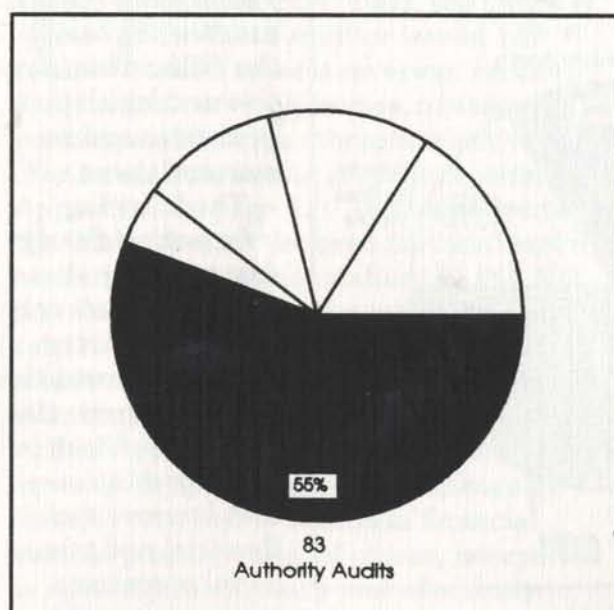
tors and other officials, and, along with significant individual audit results, are also the basis of the OSA administrative and legislative initiatives and recommendations.

The following information clearly demonstrates that OSA audits not only have safeguarded the Commonwealth's assets but have also assisted auditees in creating solutions that improve their financial and managerial operations.

Audits Issued January - July 1988



Authority Audits



Audit Results

During the report period, the OSA released 83 audit reports on various housing, redevelopment, transit, and independent authorities. Seventy-two of these were of housing authorities; 42 were performed at the request of the Commonwealth's local housing authorities and conducted pursuant to the Federal Single Audit Act. Of the remaining 11 authority audits, 3 were redevelopment authorities, 4 were transit authorities, and 4 were independent authorities. These reports identified common audit results, which, if addressed, could save the authorities, and, therefore, the state and federal government's money, while also assisting public housing tenants and applicants.

Housing Authorities

Noncompliance with Tenant Selection and Rent Determination Procedures

OSA audit reports disclosed that many housing authorities did not accurately calculate tenant rents or adhere to certain Executive Office of Communities and Development (EOCD) regulations regarding tenant selection. These conditions result in lost rental income to the authorities, thereby potentially increasing state subsidy payments. These errors also could result in eligible tenants being deprived, either temporarily or permanently, of housing to which they are entitled.

Examples include:

- The Burlington Housing Authority did not adhere to tenant selection regulations in the 667-C Elderly Housing and 707 Rental Assistance Programs. As a result, eligible applicants have been left on waiting lists from as far back as 1974. Of 50 rent determinations tested, 12 (24%) were inaccurate due to mathematical errors and incorrect deductions.
- The Hampshire County Regional Housing Authority did not obtain adequate documentation regarding income and deductions used in determining tenants' rent.
- The Melrose Housing Authority did not recompute rents annually for tenants in Special Needs Housing Programs 689-C and 689-3.
- The Newburyport Housing Authority did not have access to income documents of tenants in the 689-1 Special Needs Housing Program; consequently, there was no way to determine that the correct rental income was received.
- The Norton Housing Authority compiled multiple waiting lists from an incomplete master file; accepted incomplete applications; neglected to notify ineligible applicants of their status; did not obtain adequate supporting documentation for rent determinations in half the cases tested; and made errors in some rent calculations.

Noncompliance with Tenant Selection and Rent Determination Procedures

Continued

- The Stockbridge Housing Authority did not perform the required annual redeterminations of tenants' income to re-establish rent payments. The OSA review of files for 9 out of 13 tenants participating in the Section 8 Program indicated that tenants' income was not redetermined for periods ranging from 15 to 37 months.
- The Wilbraham Housing Authority did not follow EOCD regulations concerning tenant selection. The audit report noted the admission of two ineligible applicants, the absence of a vacancy ledger, and deficiencies in the maintenance of a waiting list. In addition, there was no documentation to support 34 out of 89 rent redeterminations, and there were delays in performing annual rent redeterminations.

Inadequate Control Over Property and Equipment

Authorities that do not follow proper inventory control procedures expose property and equipment to possible loss or misuse. Two reports identified areas where control over property and equipment needed improvement:

- The Topsfield Housing Authority did not conduct physical inventories of its equipment or update inventory records.
- The Wilbraham Housing Authority did not maintain property ledger cards, tag equipment, or conduct an annual inventory as required by EOCD.

Inadequate Accounting and Administrative Controls

OSA reports on local housing authorities revealed various recordkeeping and internal control weaknesses that could adversely affect their operations and distort financial statements filed with EOCD. Without proper controls, an Authority may incur unnecessary operating deficits or retain excess EOCD subsidy payments, in either case potentially decreasing funds available for other programs.

Examples include:

- The Chelmsford Housing Authority's other programs did not reimburse its Elderly Housing Program 667-C for \$51,524 in expenditures made on behalf of the Authority's other programs.
- The Danvers Housing Authority accumulated \$11,397 in excess rental subsidies from EOCD, due to failure to amend quarterly subsidy requests.
- The Hampshire County Regional Housing Authority did not maintain its rent collections for Family Scattered-site Housing Program 705-1 on a current basis. In addition, the Authority and EOCD have not acted promptly to close out Elderly Housing Pro-

grams 667-1 and 667-2 from development status into management status. Finally, as of December 31, 1986, the development cost for its 705-1 Program has exceeded the Contract for Financial Assistance by \$153,600.

- The Melrose Housing Authority did not maintain sufficient cash balances in its checking account for one year of the audit period, causing \$281 in service charges for insufficient funds. In addition, the Authority advanced \$915 to tenant organizations without receiving any supporting documentation for expenditures.
- The Norton Housing Authority did not: properly monitor funds spent by the tenant organization; document payroll costs and benefits to employees; reconcile tenant accounts receivable and withholding accounts; or file quarterly operating statements in a timely manner (resulting in \$23,500 in excess subsidies from EOCD). The Authority also neglected to document petty cash disbursements, administrative expenses, and travel reimbursements.
- The Saugus Housing Authority did not maintain a Cash Receipts Journal for its Family Scattered-site Housing Program 705-1, and monies received were not deposited daily. Late payment of taxes to the IRS resulted in penalties totalling \$343. Also, payroll records did not show accumulated vacation and sick time. Finally, the number of leased housing units reported to the U.S. Department of Housing and Urban Development differed from the Authority's records.
- The Topsfield Housing Authority operated with an outdated personnel policy and without attendance calendars. A review of the financial statements revealed unrecorded disbursements, the absence of fiscal year-end accruals, unreturned excess EOCD subsidy payments, and improperly prepared bank reconciliations and financial statements for the 667-1 Elderly Housing Modernization Program.

Unsafe Conditions

One audit revealed the presence of unsafe conditions in public housing:

- The Hampshire County Regional Housing Authority's Family Scattered-site Housing Program 705-1 house in South Hadley had major structural problems. For example, interior walls and ceilings were badly cracked; bricks had worked loose from the foundation; and the sidewalk leading from the street to the house had sunk approximately six inches.

Noncompliance with Regulations

Several authorities were found to be in noncompliance with various federal or state regulations or statutes. Such noncompliance could result in overspending for contracted services or for employee travel expenses, as well as overpayments or underpayments to employees who work overtime and to Rental Assistance Program participants.

- The Burlington Housing Authority made more than \$10,000 in utility allowance payments to private landlords under its Rental Assistance Program in violation of federal regulations. In addition, rental assistance payments to some landlords exceeded the maximum permitted by EOCD and annual inspections of the rental assistance units were not performed. Also, two contracts exceeding \$2,000 for snow removal and cleaning were not put out to bid. Lastly, the Authority did not establish a Revolving Fund as required by EOCD to accommodate shared expenditures by more than one program.
- The Easton Housing Authority did not adhere to the EOCD regulation requiring that all travel-related expenses be supported with documentation. As a result, the former Executive Director received reimbursement for \$5,158 in undocumented travel expenses.
- The Greenfield Housing Authority did not ensure that all staff and Board members adhered to EOCD's regulation requiring receipts and other documentation for travel-related expenses. During the audit period, \$1,733 in travel vouchers did not contain adequate documentation.
- The Melrose Housing Authority did not conduct annual safety and code violation inspections of rental assistance units (707 and Section 8) during one year (1986), in violation of its contract with EOCD. However, an inspection was carried out in 1987.
- The Norton Housing Authority made \$9,484 in charges to its Operating Reserve Account which were not approved by EOCD. In addition, the Authority did not comply with public bidding requirements for the purchase of energy conservation material.
- The Orange Housing Authority purchased a tractor costing \$4,240 without obtaining three written proposals as required by EOCD.
- The Saugus Housing Authority did not prepare purchase orders for equipment, supplies, and services exceeding \$25. Bids were not solicited for painting services costing \$7,000. Outdated utility allowance schedules were used in computing tenants' rental contributions for the federal Section 8 Rental Assistance Program.

-
- The Stockbridge Housing Authority was not conducting the required annual inspections of certain rental units to determine whether they continue to meet designated standards for decent, safe, and sanitary housing.
 - The Tewksbury Housing Authority did not comply with EOCD regulations and its own management policy regarding competitive bid proposals in obtaining written contracts for rubbish removal. As a result, the Authority had no assurance that it received the lowest possible price for a service and had no way of guarding itself against excessive charges by the vendors.
 - The Westfield Housing Authority's overtime work compensation policy did not conform to Massachusetts statutes; consequently, two employees collectively were paid \$6,131 less than the required minimum.

**Revenue not
Maximized**

OSA audit reports disclosed that several authorities failed to maximize their revenue and therefore may have received excess subsidies from the Commonwealth:

Examples include:

- The Amherst Housing Authority could have earned additional interest income, totalling approximately \$1,695 during the audit period, if it had invested the excess idle funds of its Rental Assistance Program in a high-yield interest-bearing account.
- The Orange Housing Authority lost \$1,228 in interest income during the audit period by maintaining its operating funds in non-interest-bearing accounts.
- The Oxford Housing Authority did not place its Rental Assistance Program 707 cash funds in an interest-bearing checking account. As a result, the Authority lost \$1,300 in potential interest income during the audit period.
- The Springfield Housing Authority stockpiled refrigerators and ranges valued at \$48,137 instead of investing its excess funds in income-producing securities.

Noncompliance with Federal and State Tax Regulations

OSA audits revealed that several authorities have not complied with federal or state tax regulations.

Examples include:

- The Chelmsford Housing Authority did not issue Internal Revenue Service (IRS) 1099-MISC income information forms to its fee accountant and winter maintenance employee, who were paid a total of \$10,125 over calendar years 1984, 1985, and 1986.
- The Newburyport Housing Authority did not issue the required IRS 1099-MISC income information forms to a private contractor who was paid \$5,060 in calendar years 1985 and 1986.
- The Norton Housing Authority neglected to report quarterly withholding for employees in two quarters, as well as \$12,229 in payments to 707 Rental Assistance landlords, to the IRS, and to the Department of Revenue (DOR) during the audit period.
- The Oxford Housing Authority did not comply with state and federal regulations requiring consistent payroll tax deductions each pay period from the Executive Director's salary payments.
- The Saugus Housing Authority did not issue IRS 1099-MISC income information forms to various service providers who were paid a total of \$14,815 during calendar year 1986.
- The Springfield Housing Authority did not implement a federal statute requiring it to match the employee contribution to the Medicare portion of the Social Security tax. As a result, the Authority and its new employees had an unfunded tax liability of \$1,014, as of March 31, 1987.

Delays in Filling Vacant Apartments

Several housing authorities lost potential revenue through delays in filling vacant apartments. These delays not only result in lost revenue, thereby necessitating excess subsidies from the Commonwealth, but also deprive eligible low income persons of the timely use of the housing.

Examples include:

- The Norwell Housing Authority's excessive delays in filling 17 vacant elderly apartments resulted in \$8,112 in lost potential rental income.
- The Orange Housing Authority lost potential rental income totalling approximately \$7,778 because of excessive delays in preparing 20 vacant elderly apartments.

Independent Authorities

Massachusetts Bay Transportation Authority (MBTA) Prepaid Monthly Pass Program

Our review disclosed that the MBTA's Prepaid Monthly Pass Program revealed the following deficiencies:

- Lack of administrative control over the Authority's commuter rail contractor's Pass Program operations.
- Inadequate control over Pass Program receivables required the State Treasurer to incur borrowing costs totalling approximately \$80,000 during the 12-month period ending June 30, 1986. The Authority also wrote-off pass program debts of approximately \$9,500 without obtaining appropriate approval.
- Approximately \$52,000 spent in 1985 on unsold monthly passes was unnecessary because the Authority consistently overestimated its monthly pass needs.
- Distribution of free monthly passes to concessionaires operating in the Authority's stations, despite the fact that this practice is open to abuse. The sales value of free passes given to concessionaires from January through September 1986 exceeded \$16,000.
- Other administrative issues noted in the audit report were: a) lack of written agreements with pass distributors in many instances; b) non-enforcement of the minimum five-pass order requirement for employer participation in the program; c) lack of a written contract with a bank performing functions of the "pass by mail" program; d) late acceptance of 11,800 returned passes, despite the requirement that unsold passes be returned by distributors by the fifth day of the ridership month.

Massachusetts Water Resources Authority (MWRA)

A joint review conducted with the Office of the Inspector General of the MWRA's procurement of Program and Construction Management Services (P/CM) for Deer Island-Related Construction disclosed a number of deficiencies in the procurement procedures utilized for the contract. The procedures, adopted in 1985, call for a two-step process: a Request for Qualifications (RFQ) phase, in which the qualifications of all competing firms are evaluated and the number of competitors is reduced; and a Request for Proposals (RFP) phase, in which firms on the "short list" are invited to submit proposals (including proposed fees) for providing the services.

The audit report revealed deficiencies in the MWRA's procurement process:

- In both phases, the Authority failed to articulate all of the evaluation criteria it used to judge the competing firms.
- Some of the criteria and subcriteria in both phases were too vague to be applied consistently and fairly.

**Massachusetts
Water Resources
Authority**
Continued

- The Authority failed to evaluate the financial stability of firms in the RFQ phase as required by its procurement rules.
- The Authority's method of rating and ranking qualifications was vulnerable to arbitrary decisions.
- The selection process in the RFQ phase was inadequately documented.
- The elimination of three firms at the RFQ stage unduly limited competition for the contract.
- The RFP failed to define clearly the services sought by the Authority.
- The proposed contract, as described in the RFP, was excessively vulnerable to uncontrolled costs.

Prior Audit Results: Corrective Actions

Among the housing and other authorities that implemented the OSA's audit recommendations were the following:

Housing Authorities

- | | |
|--|--|
| Chatham Housing Authority | <ul style="list-style-type: none"> ■ The Chatham Housing Authority is now adhering to EOCD budget guidelines by charging only extraordinary repairs, maintenance, and replacements to its operating reserve account. |
| Dennis Housing Authority | <ul style="list-style-type: none"> ■ The Authority has received repayment from the former Executive Director and the former Maintenance Mechanic for overpayments in vacation and overtime wages. Upon the recommendation of the Barnstable District Attorney's Office, the Authority accepted payment of \$5,548.62 as full settlement for the \$7,698 in overpayments uncovered during our audit. The settlement was subsequently approved by EOCD. |
| Falmouth Housing Authority | <ul style="list-style-type: none"> ■ The Authority is now in conformance with HUD's and EOCD's guidelines for inventory control. |
| Hampden Housing Authority | <ul style="list-style-type: none"> ■ The Authority is now complying with public bidding laws regarding the issuance of painting contracts. |
| Hampshire County Regional Housing Authority | <p>The following recommendations have been implemented:</p> <ul style="list-style-type: none"> ■ The Authority now maintains the following records that are necessary to properly collect rents: monthly rent rolls, duplicate rent receipts, bank deposit slips, accounts receivable subsidiary records, and tenant leases. ■ The Authority now invests excess funds in interest-bearing accounts. |
| Hanson Housing Authority | <p>The Authority has implemented all OSA recommendations:</p> <ul style="list-style-type: none"> ■ The Cash Disbursement Journal is being maintained on a monthly basis and is kept, as required by EOCD, with the Authority's records. ■ Quarterly statements for the fiscal year ended September 30, 1986 and 1987 were filed promptly. ■ Fiscal year budgets for the audit period were filed within the proper time period. |

**Hanson Housing
Authority**

Continued

- IRS 1099-MISC income information forms were prepared and submitted to the landlords of the 707 Rental Assistance Program for calendar years 1985 and 1986.

**Methuen Housing
Authority**

The Authority has corrected all of the deficiencies noted in the previous OSA report:

- The Authority no longer makes interproject loans and has repaid borrowed funds to the appropriate projects.
- Program 707 Rental Assistance accounts receivable/payable balances have been corrected.

**Natick Housing
Authority**

The Authority has corrected the majority of the deficiencies cited in the prior OSA audit report. In accordance with our recommendations, the Authority has:

- Placed persons on the waiting list only after receiving a complete and current application.
- Prepared an accurate, up-to-date waiting list.
- Updated information on applications and redetermined eligibility when applicants reached the top of the waiting list.
- Tagged, engraved, and recorded all inventory items.
- Presented to the Board for its approval complete accounts payable vouchers and attached supporting documentation for all expenditures.
- Refrained from charging ineligible expenses to the Resident Service Costs Account.
- Prepared a reconciled trial balance of tenants' receivables for each state-aided program.
- Established separate interest-bearing accounts for its capital reserve account in the 200-1, 667-C, 705-C, 667-5, and 705-3 programs.
- Accurately listed all anticipated operating reserve charges in the annual budgets and obtained separate EOCD approval for items not budgeted.

**North
Attleborough
Housing Authority**

The Authority has implemented all OSA recommendations:

- The Authority is now complying with the Code of Massachusetts Regulations relative to lease addenda and tenant income verification.
-

- Funds are now retained in interest-bearing accounts.
- Improper charges are no longer being made to the Operating Reserve Account.

**Northampton
Redevelopment
Authority**

- The Authority has revised its cost estimate for the Millyard Industrial Park to reflect \$18,472 in excess reimbursements from the Executive Office of Communities and Development, as noted in our previous audit report.

**Norton Housing
Authority**

- Several of the deficiencies noted in the last report have been corrected:
- Miscellaneous income is now being properly recorded.
 - Interest earned on investments is now posted on a current basis.
 - The Authority has established a voucher system for the payment of bills.

**Pembroke
Housing Authority**

- In accordance with OSA recommendations, the Authority currently reconciles its Revolving Fund, properly maintains accounting records for its Leased Housing Program, and has made adjustments for outstanding checks from 1983 and 1984.

**Saugus Housing
Authority**

- Three OSA recommendations have been implemented:
- The Authority has implemented a plan to ensure compliance with EOCD regulations for rent determinations and tenant eligibility.
 - Proper records are now kept for the 707 Rental Assistance Program.
 - Accounting errors noted on financial statements have been corrected.

**Scituate Housing
Authority**

- As recommended in the prior audit report, the Authority has taken a physical inventory of nonexpendable equipment. It also indicated that inventories will be taken and the records updated on an annual basis.

**Stockbridge
Housing Authority**

The Authority has corrected the deficiencies that existed in its state-aided housing program:

- Payroll time sheets and attendance records are now maintained on a regular weekly basis.
- The Authority now requires that documentation for all travel expenses incurred be attached to a voucher and approved by the Board prior to payment.
- The Authority no longer allows the use of Authority funds for retirement parties or gifts.
- The Authority has discontinued pre-signing blank checks.
- The Authority reimbursed the state-aided Elderly Housing Program 667-1 \$11,360 in November 1987 as partial payment of rents paid for the federal Section 8 Rental Assistance Program after its Annual Contribution Contract with the Department of Housing and Urban Development (HUD) had expired. As of January 8, 1988, the federal program still owed the Elderly Housing Program 667-1 \$12,000.
- The Authority now requires the Tenants' Association to submit a budget detailing how funding for resident service costs will be used, to assure accountability in accordance with Executive Office of Communities and Development (EOCD) guidelines.

In accordance with recommendations in the last audit of the Authority's federal programs:

- The Authority has remitted \$6,951 in overpayments of annual contributions to HUD.
- The Authority retroactively adjusted its administrative fee in the amount of \$1,286 as authorized by HUD.

**Tewksbury
Housing Authority**

- The Authority has taken recommended action and now issues the required IRS 1099-MISC income information forms to landlords participating in the Leased Housing Program and to the Authority's fee accountant.

**Topsfield Housing
Authority**

- In accordance with the OSA recommendation, the Authority is now issuing IRS 1099-MISC income information forms to all third party contractors in compliance with required tax regulations.

Wareham Housing Authority

- In response to the prior OSA audit report, the Authority established a formal cash-management investment policy and holds all funds in interest-bearing accounts yielding reasonable rates of return.

Williamstown Housing Authority

- The Authority has complied with our recommendation by issuing the required IRS 1099-MISC income information forms to landlords receiving \$600 or more in a calendar year.

Winchester Housing Authority

All OSA recommendations have been implemented:

- The Authority has now established an interest-bearing account for Capital Reserve funds.
- The Authority has taken an annual inventory of property and equipment.
- The Authority has issued required IRS 1099-MISC income information forms to third-party contractors in a proper and timely manner.
- The Authority now has a review procedure whereby rent determinations are double-checked for accuracy.
- Fees paid for legal services are being properly documented.

Use of Subsidy

Independent Authorities

Massachusetts Bay Transportation Authority

The Authority has taken action in response to several issues disclosed in prior MBTA audits and the OSA report on the Red Line Capital Expansion Program:

- The Authority's internal audit unit has developed an audit program for, and committed resources to, the independent verification of vendor claims.
- In an attempt to improve supervision of fare collections, the Authority has: a) prohibited vehicle operators from accepting dollar bills; b) instituted a vacuum system for coin removal at some garages; c) accounted separately for non-registered coins; d) required frequent surveillance of fare collections and vault handling; and e) installed a metal detector and video camera system in its money room.
- The Authority has adopted a policy exercising eminent domain in situations where the negotiation process for land acquisition is either unduly lengthy or likely to result in a settlement that is unfair to the Authority.
- The Authority has hired a field monitor to verify the number of vehicles using its parking facilities in order to ensure that it receives its share of parking fees.
- The Authority has computerized its listing of real estate holdings so that it can be updated in an efficient and economical manner.

Two deficiencies remain uncorrected as of our last report:

- Vehicles with defective coinboxes continue to go into service.
- Farebox repairmen are unsupervised when they transfer revenue from defective fareboxes into a collection bag.

Initiatives

Authority audits comprise over 55% of the audits issued by the OSA during this report period. The OSA commends, especially, Executive Office of Communities and Development (EOCD) and local housing authorities for prompt corrective action on prior audit recommendations. During FY 1989, the OSA plans initiatives in the area of authority audits which include the following:

Housing Authority Special Services Programs

- This audit will review the procurement of special programs for tenants in public housing. These special programs are for services such as educational training, child care, and job training and placement.

Massachusetts Bay Transit Authority

- This audit will focus on the Orange Line reconstruction project and will review the Authority's policies and practices pertaining to the awarding, coordinating, and reviewing of design engineer and construction contracts. A review of other federally financed procurements is also anticipated.

Massachusetts Convention Center Authority

- The OSA is continuing a comprehensive review of the Massachusetts Convention Center Authority's financial activities with particular emphasis on construction contracts and related expenditures.

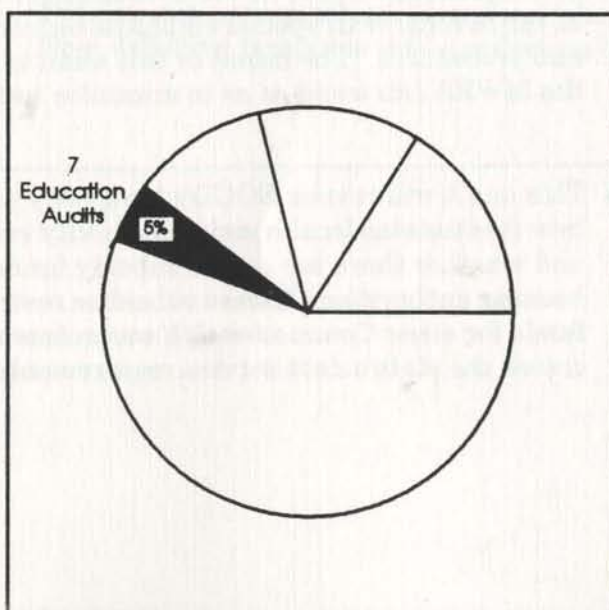
Massachusetts Water Resources Authority (MWRA)

- A comprehensive preventative financial review is being conducted at the MWRA with special emphasis on current operating policies and procedures. The intent of this audit is to identify costs that the MWRA can avoid so as to minimize water rate increases.

Use of Subsidy Funds

- This audit will review EOCD's budgetary practices to determine how it estimates local housing authority subsidy requirements and whether there are excess subsidy funds available at local housing authorities. Excess subsidies restrict the availability of funds for other Commonwealth commitments and can also increase the state's debt service requirements.
-

Education Audits



Audit Results

During the report period, the OSA released seven reports pertaining to state higher education audits, including a follow-up audit of the Holyoke Community College and an Electronic Data Processing (EDP) audit of Worcester State College. Common results that appeared in these audits include: inadequate control over property and equipment; inadequate control over accounts receivable; inadequate accounting and administrative controls; and noncompliance with state and federal laws, regulations, and guidelines.

Inadequate Control Over Property and Equipment

The State Comptroller requires that all state agencies annually conduct a complete inventory of their fixed assets and report this inventory to the Comptroller. As a result of deficiencies in this area, several auditees could not be assured that their property and equipment were adequately safeguarded against loss or improper use.

Examples include:

- Middlesex Community College did not maintain a perpetual inventory and its master inventory listing was incomplete.
- North Shore Community College did not properly record acquisitions, loans, transfers, and disposals of equipment. In addition, by designating as "missing" equipment that had been transferred or that had been stored away, the College was unable to determine the total value of its physical property. (During our review, we were able to find property valued at a total of \$679,923 which had been listed as missing on the College's inventory.)

Noncompliance with State and Federal Laws, Regulations, and Guidelines

Chapter 15A, Section 16, of the Massachusetts General Laws established the Division of Continuing Education (DCE) to allow colleges to conduct summer sessions and evening classes, "provided such classes are operated at no expense to the Commonwealth." Our review disclosed that:

- North Shore Community College's DCE program, in violation of Chapter 15 of the MGLs, does not reimburse the Commonwealth for utilities and administrative costs incurred by DCE. In addition, there is no system in place at the college to track or allocate these costs so that they are determinable and reimbursable by DCE.

**Inadequate
Control Over
Accounts
Receivable**

Inaccurate accounts receivable records and ineffective collection efforts distort the financial position of an institution and result in a financial loss to the Commonwealth. For example:

- The accounts receivable balance at North Shore Community College contained a total of \$139,731 (approximately 40%) of accounts that, because of their age, have poor potential for collection.

**Inadequate
Accounting and
Administrative
Controls**

The OSA audits revealed some deficiencies pertaining to internal control policies and procedures. For example:

- Contrary to the MMARS policy manual and to generally accepted accounting principles, North Shore Community College has not maintained a general ledger for cash, accounts receivable, accounts payable, college income, and miscellaneous income since June 30, 1985.

Prior Audit Results: Corrective Actions

Among the higher education entities that implemented the OSA's recommendations were the following:

Holyoke Community College

The follow-up OSA review revealed that the College has made significant improvements in the majority of the areas that were found deficient in the prior audit. Improvements have been made in:

- reconciliation of the College's cash balance
- controls over accounts payable
- documentation of financial statement adjustments
- availability of information necessary to verify accounts receivable and student billing
- accuracy of equipment inventory records
- completeness of trust fund records and use of receipt monies
- documentation and approval of trust fund expenditures
- documentation supporting "03" consultant payments
- recordkeeping practices and policies relating to travel advances
- policies governing unpaid checks
- controls over vendor commissions.

Westfield State College

The following actions have been taken in accordance with the recommendations of the OSA:

- Previously unrecorded equipment items are now being recorded.
- Inventory items previously not tagged were located and tagged.
- Sequentially numbered equipment tags are now being utilized.
- The College has reimbursed \$10,000 to the Commonwealth from its Continuing Education Trust Fund in order to settle outstanding financial issues surrounding the questionable legal agreement under which the College had paid \$10,000 to a student.

Initiatives

Education audits comprised 5% of the audit reports that were released during the report period. Listed below are planned and ongoing initiatives related to higher education and to activities overseen by the Department of Education (DOE).

Department of Education

- A performance audit is scheduled at DOE with emphasis on the following areas: Equal Education Opportunity grants, Professional Development grants, school building assistance, transportation of school children, and educational collaboratives. The intent of this audit is to determine whether funds are being spent for the intended purpose and the extent to which program goals are being achieved.

Higher Education Trust Funds

- The OSA is nearing completion of a statewide review of the uniformity and adequacy of financial and management controls over higher education trust funds. This audit will contain recommendations to the Legislature aimed at improving controls and management over these funds.

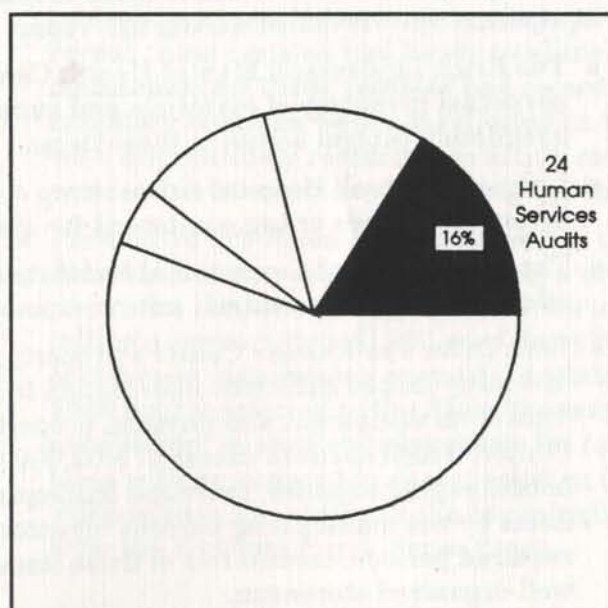
Special Education Law (Chapter 766)

- Audit Operations and EDP Audit are assisting the Division of Local Mandates in a major comprehensive statewide study of the Commonwealth's Special Education Law. The study targets areas such as student placement, mainstreaming, the role of educational collaboratives, private school tuition, and transportation, focusing on the responsibility of state agencies in ensuring program success. (See page 59)

Student Financial Aid

- Audits of federal student financial aid programs will be conducted at eight colleges and universities. These audits are being performed to assist in the Single Audit of the Commonwealth's Comprehensive Annual Financial Report.

Human Services Audits



Audit Results

During the report period, the OSA released 24 reports pertaining to human services activities, eighteen of which contained audit results. These reports consisted of nine public health reports, four human service vendor audits, seven audits of mental health facilities, and four audits of corrections entities. Among the common recurring results were the following:

Revenue Not Maximized

OSA audits disclosed that several entities did not fully maximize revenue. Examples include:

- The Dr. Harry C. Solomon Mental Health Center lacked adequate internal control over its revenue cycle, the result of which was that potential revenues from out-patient services, in-patient self-paying clients, and miscellaneous income were not pursued.
- The Erich Lindemann Mental Health Center is not certified by the Joint Commission on Accreditation of Hospitals (JCAH). It is therefore not entitled to receive financial assistance from the federal Medicaid Program. Despite the Center's efforts to have Medicaid-eligible patients treated at JCAH-accredited clinics associated with the Center, \$148,000 in federal Medicaid reimbursement was lost to the Commonwealth during our audit period.

Inadequate Control Over Property and Equipment

Section 28 of the Comptroller's Accounting Manual requires all state entities to keep complete inventories and to tag equipment in order to ensure that inventory is safeguarded and used for its intended purposes. Several deficiencies in control over property and equipment were revealed during this report period. For example:

- The Erich Lindemann Mental Health Center did not maintain a perpetual inventory of materials and supplies and did not adequately control access to these items.
- Lemuel Shattuck Hospital did not keep complete and current inventory records or tag equipment for identification.
- The North Central Correctional Institution did not maintain adequate inventory controls over equipment and gasoline.
- Park Drive Pre-Release Center's property and equipment inventory lacked sufficient information to accurately identify and control its equipment and physical property. In addition, the Center, which spent in excess of \$102,000 for food and housekeeping supplies, exercised inadequate control over these items by not maintaining current inventory records, not taking the required periodic inventories of these items, and not maintaining a well-organized storeroom.

**Inadequate
Maintenance of
Client/Inmate
Funds**

The need for improvement over the management of client/inmate funds was noted at a number of facilities. Strict monitoring of client funds is important in order to ensure accurate balances of patients' accounts and to protect patients' interest income. For example:

- Berry Rehabilitation Center did not adequately maintain the Patient's Fund Accounts of the Berry Center clients. Deficiencies included inaccurate balances of patients' accounts, loss of potential interest income to patients, and an environment in which errors or irregularities could go undetected.
- The Dr. Harry C. Solomon Mental Health Center lacked adequate internal control over patients' funds to ensure that they were received, recorded and disbursed for the intended purpose.
- Harbor View Rest Home's patients' Personal Needs Allowance (PNA) trust fund was maintained without the accounting controls and approvals required by the Department of Public Welfare (DPW). As a result, \$32,000 in patients' funds were unaccounted for.
- Lemuel Shattuck Hospital did not maintain adequate control over funds in its patient accounts, resulting in the apparent misappropriation of at least \$10,485. Internal control weaknesses included a lack of segregation of duties in the cashier's office, non-supervision of cashier activity, failure to reconcile patient funds on a daily basis, failure to reconcile monthly bank statements, and failure to reconcile on a monthly basis the patient cards and patient fund cashbook to the bank statements.
- North Central Correctional Institution exercised inadequate control over inmates' savings bonds as the following deficiencies reveal: nine inmates had bonds totalling \$1,750 with no records maintained for them; inmates had records which were inaccurate; monetary balances were not reflected on the file cards; file cards were not routinely reconciled to actual count of bonds; and there were no written policies governing the handling of inmate bonds.
- Park Drive Pre-Release Center's control of inmate accounts was deficient in many respects, including a continuing variance between the inmate control cards and the inmate cashbook, totalling approximately \$1,400 as of June 30, 1985; poor segregation of duties in maintaining accounts; unclaimed inmate funds of \$658 not transferred to the State Treasurer and \$323 in loans uncollected; incomplete worksheets for room and board deductions with no supporting documentation for gross wages paid to work-release inmates; and the commingling of inmates' monies with the Resident Fund (house fund).

Inadequate Accounting and Administrative Controls

OSA audits revealed that several human services entities had deficiencies pertaining to internal control policies and procedures. Examples include:

- The Department of Mental Health-Region V did not sufficiently document and approve time worked by employees. As a result, adequate controls did not exist over payroll expenditures for 238 positions during the nine months under audit.
- The Erich Lindemann Mental Health Center expended its fiscal year 1987 appropriation for 1986 expenses without notifying the Budget Bureau, as required. As a result, the 1986 financial statements were misstated. In addition, the Center did not adequately monitor the procedures used to control its payroll expenditures. One hundred thirty-eight of the Center's 224 employees did not use sign-in sheets, while employees also used a total of 214 days of compensatory time, in violation of a contractual agreement.
- The Hogan/Berry Centers had inadequate controls over gift funds, resulting in cashbooks not reconciled to bank balances, earned interest and disbursements not always recorded in the cashbooks, and disbursements not properly documented.
- Lemuel Shattuck Hospital's internal accounting controls were deficient in several respects, including failure to maintain a general ledger, monthly trial balances of receivables, and a control account for receivables since June of 1982. In addition, receivable balances were not accurate and delinquent receivables were not actively pursued. Finally, the Hospital's control over cash receipts needs to be improved. Certain functions in the cashier's office were not properly segregated; hospital management did not supervise employee activities; receipts posted to the subsidiary ledgers for receivables were not referenced to the cashbook or remittance advances; and the Hospital did not reconcile its records to the Comptroller's records.
- Lemuel Shattuck Hospital paid its consultants' medical service contracts without first reviewing their timesheets, as required by their contracts. As a result, the Hospital paid a physician \$18,464 for three months during which he did not work.
- The Massachusetts Hospital School did not properly segregate certain financial and inventory functions. This condition contributed to an alleged theft of \$12,998.
- The North Central Correctional Institution exercised inadequate controls over vending machine operations and the Employee Benefit Fund. The Institution lacked any written agreements with the vendors, failed to verify the appropriateness of the

approximately \$12,000 of commissions received during FY 1987, and lacked sufficient supporting documentation for 21 out of 55 (38%) expenditures of the Employee Benefit Fund.

- The Park Drive Pre-Release Center did not maintain adequate documentation of employee work time. In addition, charges of approximately \$120,000 were made to the Center's payroll account for three individuals who were not assigned to the Center.

**Noncompliance
With State and
Federal Laws,
Regulations, and
Guidelines**

The OSA identified several instances of noncompliance with state and federal laws, regulations, and guidelines. Examples include:

- Associated Day Care Services of Metropolitan Boston, Inc. (ADCS), contrary to state regulations, did not prepare biannual progress reports for children at four of the six day care centers we visited. In addition, ADCS did not document fire drills conducted at its six day care centers.
- The Harbor View Rest Home, in 1984, submitted false patient claims totalling \$16,127 for patients prior to admittance or after discharge, and DPW paid each of these claims in full without verifying their accuracy.
- The Harbor View Rest Home operated without a license during 1986 and 1987. In addition, the Home was not approved by the Rate Setting Commission (RSC) for funding during this period. Despite being notified by the RSC of the terminated rates, DPW made monthly payments to the facility based on the 1985 daily rates. As a result, during calendar years 1986 and 1987, DPW overpaid the rest home a total of at least \$96,661.
- The Harbor View Rest Home audit revealed that patient-care funds totalling \$150,105 were apparently used for the personal benefit of the former administrator and a member of the board of directors.
- The Harbor View Rest Home failed to remit to the Commonwealth and to the federal government a total of \$48,963 in payroll taxes for calendar years 1985 and 1986. (Of this amount, \$35,975 was withheld from the Home's employees' paychecks and the remaining \$12,988 was the Home's share of its employees' Social Security taxes.) The Home also failed to file both state and federal tax forms for 1985 and 1986.
- Lemuel Shattuck Hospital, contrary to requirements of a Department of Public Health memorandum, made \$8,600 in unauthorized expenditures from its canteen fund for non-emergency items such as postage and malpractice insurance.

**Noncompliance
With State and
Federal Laws,
Regulations, and
Guidelines**

Continued

- The Park Drive Pre-Release Center's Resident Orientation Manual requires each resident to contribute to the Resident Fund. This manual's requirement is contrary to the intent of Massachusetts General Laws, Chapter 127, Sections 48 and 86F, which specify which deductions may be made from inmate earnings. During the audit period, the Center deducted \$15,000 from resident inmates' work-release wages for the benefit of the Resident Fund.

**Related Party
Transactions**

Related party transactions are financial transactions (e.g., leases, sales, loans) between two or more individuals and/or organizations which are associated or affiliated by common ownership or control. These transactions are not illegal, unless a conflict of interest results. However, state regulations strictly govern related party transactions to ensure that money is being spent efficiently and appropriately.

- Our House, Inc., a human service vendor, made \$1,220 in overpayments on a lease arrangement with a related party (Outreach Specialist, Inc.) The overpayments occurred when Outreach Specialist erred in its calculation of annual lease charges to Our House and included unallowable property tax expenses.

**Deficiencies in
Client Care/
Health Standards**

One audit disclosed conditions which potentially threatened the health safety of clients:

- The Harbor View Rest Home audit revealed that, despite knowledge of repeated sanitary and safety violations, the Department of Public Health failed to take sufficient and timely action regarding substandard operating conditions at the Rest Home. As a result, the facility operated for two and one-half years under substandard conditions which adversely affected the health and welfare of its residents.

**Audits of U.S.
Department of
Health and
Human Services
Block Grants-
Preventive Health
Services and
Maternal and
Child Health
Services**

The OSA released two audits of block grants awarded to the Massachusetts Department of Public Health (DPH), and three reports based on examinations of contracts between DPH and selected subrecipients. The following issues were contained in the DPH Block Grant-Preventive Health Services' review:

- DPH is not complying with the cash advances system which governs the disbursement of grant monies. Under this system, the timing and amount of the cash advances from the federal government to the state should be as close as feasible to the actual disbursements by the recipient organization for program costs. Our audit revealed that DPH was holding unexpended cash advances ranging as high as \$1.5 million, even though all program expenditures for the next 11 months totalled only \$1,267,462.
- Due to a bookkeeping error, DPH owes the Family Planning Council of Western Massachusetts \$3,684 for vouchers which were approved for payment but later deducted due to a miscalculation.

The OSA review of the Department of Public Health Block Grant-Maternal and Child Health Services disclosed the following:

- The Department is not complying with the cash advances system which governs the disbursement of grant monies. Specifically, the Department held cash advances in September, 1984 totalling \$1,556,169, an amount sufficient to provide for all subsequent program expenditures of \$1,217,543 made during the next 12 months.

In our three audits of selected subrecipients under the health services block grants, the following reimbursement claims were questioned by the OSA:

- Payments made to Harvard Street Neighborhood Health Center and Lynn Community Health Center were in excess (\$271.27) of line items contained in the service contracts, and the grantee (DPH) should seek recoupment from the respective subrecipients.
- Due to a lack of procedures to verify time charged by consultants, two consultants of the Health Education Risk Reduction Program received \$644.00 and \$924.49, respectively, in payment for seven holidays. Massachusetts regulations prohibit payments to non-employees for periods for which the consultant does not actually perform services under the contract.
- DPH should seek reimbursement totalling \$5,984 from the Greater Lawrence Community Action Council because the Council's claims, which were based upon a percentage of total budgetary amounts, were less than actual costs incurred. Under a different program, DPH should seek \$904 from the same subrecipient for the same reason.

Prior Audit Results: Corrective Actions

Four of the human services entities whose audits were released during this period corrected deficiencies that were revealed in their prior audits. Examples of conditions that were corrected include:

The Corrigan Mental Health Center

The Center has corrected the two deficiencies which were reported in the previous audit.

- The Center has established control procedures for outpatient billing and collections.
- The Center is now maintaining perpetual inventory records.

The Dr. Harry C. Solomon Mental Health Center

- As recommended in the prior OSA audit, the Center is now complying with the Commonwealth's bidding laws and purchasing regulations.

The Dr. Solomon Carter Fuller Mental Health Center

In response to our recommendations, the Center has taken the following corrective actions:

- All lease agreements between the Center and private agencies that occupy space at the Center have been submitted to the Secretary of Administration for recommendation of approval by the General Court, and the lessees are being billed in accordance with the terms set forth in the leases.
- The Center has collected in full all rent for the space it leases.
- The Center has collected all delinquent rental fees from previous years except for rent and interest owed by a private corporation that formerly rented space at the Center. The corporation has filed for bankruptcy and the Attorney General's Office is handling the matter of the unpaid rent.
- The Center now records patients' funds in a separate fund account ledger and posts the total cash receipts and cash disbursements from the cashbook to the general ledger account.
- The Center has conducted a complete physical inventory; instituted a system of listing and tagging all of its physical property; and initiated an "individual inventory control indexcard system" for materials and supplies, with periodic physical inventories every second month.

**The Lindemann
Mental Health
Center**

In response to our recommendations regarding inventory and accounting control over cash funds, the Center has taken the following steps:

- The Center has performed a physical inventory of its property and equipment and has tagged all property.
- The Center is now entering all cash activity in a cashbook and properly reconciling cash activity each month.

**The Norfolk Pre-
Release Center**

- As recommended in the prior OSA audit, the Center now retains inmate funds in an interest-bearing central account in the custody of the State Treasurer.

**The North Central
Correctional
Institution (NCCI)**

The two issues identified in the prior OSA audit have been addressed:

- NCCI has taken appropriate steps to reduce monthly variances in their canteen operations to less than the 2% limit of gross sales.
- NCCI now deposits canteen funds in an interest-bearing bank account.

**The Park Drive
Pre-Release
Center**

- As recommended in the prior OSA audit, the Center is now maintaining its general cashbook as well as reconciling its checking account in accordance with the Comptroller's Accounting Manual.
-

Initiatives

During fiscal year 1989, the OSA intends to move forward in several areas that were subject to an initial survey during fiscal year 1988. Several new initiatives have also been planned in response to audit results.

Child Abuse Reporting Law

- This topic was initially surveyed during FY 1988 resulting in a decision to conduct detailed audit work during this fiscal year. The audit will examine whether the Department of Social Services (DSS) and the County District Attorney's Offices have complied with the requirements of Chapter 288 of the Acts of 1983, the Child Abuse Reporting Act.

Client/Inmate Funds

- The OSA is reviewing practices and procedures in place at state institutions for monitoring client funds. The audit focuses on internal controls and whether funds are expended in compliance with rules and regulations. The OSA also plans to conduct a separate audit to review current policies and procedures at correctional institutions to similarly ensure that these funds are properly controlled and managed.

Day-Care Contracting

- The OSA is continuing to review the system at DSS for contracting with day-care providers, as well as methods of provider reimbursement.

Department of Social Services (DSS)/Foster Care Review

- The OSA plans to review the system for monitoring foster care placements under Chapter 197 of the Acts of 1984. The audit will review DSS's recruitment and training plans and will also examine the performance of the Foster Care Review Board.

Department of Youth Services (DYS)/Sex Offenders Program

- The OSA plans a pre-audit survey to review the system at DYS for planning, purchasing, and monitoring specific treatment programs in its secure facilities.

Audit Results

Homelessness Programs

- The OSA is preparing a report of its statewide audit of the Commonwealth's homelessness programs. This audit focuses on availability of services and program effectiveness.

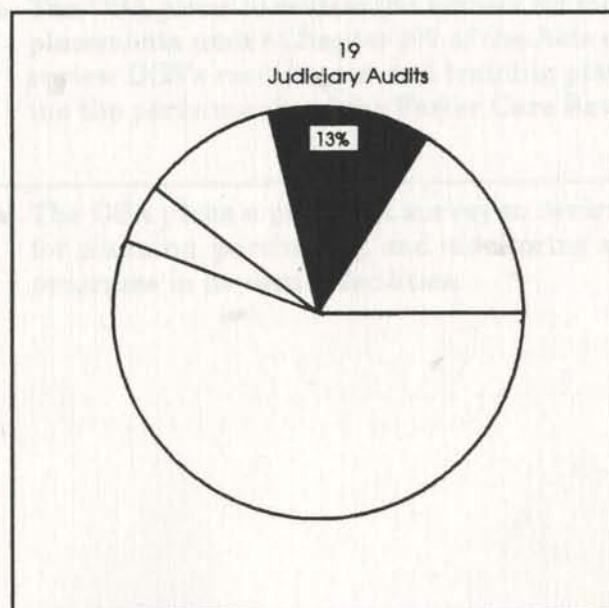
Third Party Billing Systems

- The OSA has completed a statewide survey and has begun analysis of the billing and collection procedures over third party billings at state mental health, public health, and mental retardation institutions. The audit will focus on the timeliness and frequency of billings as well as the collection and deposit of revenues in an effort to maximize revenues to help finance state operations.

Improper Retention of Funds

Inadequate Accounting and Administrative Controls

Judiciary Audits



Audit Results

Nineteen judiciary audit reports were released during the report period. The reports disclosed several common problem areas including improper retention of funds, inadequate accounting and administrative controls, inadequate control over property and equipment, inefficient purchasing practices, and noncompliance with various Massachusetts statutes.

Improper Retention of Funds

The following courts improperly retained funds instead of returning them to the State Treasurer's Office or another appropriate recipient:

- The Chelsea District Court had bails totalling \$61,210 that should have been ordered forfeited and subsequently remitted to the State Treasurer because the 136 cases were in default status. In addition, the court had on hand bail monies from 36 cases, totalling \$12,970, that were forfeited but not sent to the State Treasurer.
- The Dedham District Court did not determine whether or not bails over one year old had been forfeited and should be remitted to the State Treasurer, did not notify sureties when cases were closed and bails could have been returned to them, and did not promptly remit to the state those bails that remained unclaimed after five years.
- The Hampden Housing Court's controls for monitoring funds held in escrow for cases awaiting disposition were inadequate, causing delays in funds being returned either to the proper recipient or forwarded to the State Treasurer.
- The Suffolk Superior Court's Criminal Division's bail bank account and revenue bank account had overages of \$10,109 and \$1,225 respectively, which were not forwarded to the State Treasurer.
- The Woburn District Court's Clerk-Magistrate's Office did not forward certain bails totalling \$800 to other courts; had \$3,900 in bail on hand that should have been returned to sureties; and did not forfeit bails totalling \$20,630 to the State Treasurer from defendants who defaulted.

Inadequate Accounting and Administrative Controls

Several reports revealed various accounting, recordkeeping, and other internal control weaknesses. Examples include:

- The Chelsea District Court's Probation Office did not accurately complete bank reconciliations; unsupported adjustments were used to balance figures.

**Inadequate
Accounting and
Administrative
Controls**

Continued

- The Dedham District Court had numerous instances of noncompliance with the Trial Court's instructions for maintaining attendance calendars. In addition, there were many cases of noncompliance with the Trial Court's Personnel Policies and Procedures Manual. For example, vacation and sick time was used before it was earned.
- The Essex County (Eastern District) District Attorney's Office paid certain invoices from advance funds without obtaining the required signatures of three authorized officials. In addition, the Office did not maintain complete employee attendance records to support its payroll expenditures.
- The Hampden Housing Court had not modified and maintained adequate accounting control records to conform to the MMARS system.
- The Ipswich District Court's records of receipts and disbursements contained several errors due to its failure to utilize sound internal control procedures. For example, several subsidiary ledger cards (used to record court-ordered payments) were not posted with receipts and disbursements.
- The Lynn District Court did not forward Registry of Motor Vehicles abstracts in a timely fashion.
- The Malden District Court's attendance calendars were not supported by sign-in sheets or other alternative control records of employees' attendance or absence. Inadequate control over expenditures was also noted. There were no AF-4 forms on file for authorization of services; certain contract documentation was missing; taxes were paid unnecessarily on meal purchases and telephone equipment rental charges; and inappropriate purchase order forms were used.
- The Malden District Court's Probation Office did not reconcile its detailed account trial balance to its cashbook balance for the two fiscal years ended June 30, 1986. Our review revealed an understatement of \$1,643 in the trial balance resulting from incorrect postings and mathematical errors. The Probation Office also had not transferred \$4,289 in checks outstanding for over one year to the State Treasurer.
- The Victim and Witness Assistance Board was unable to determine whether all courts were reporting funds collected and deposited with the State Treasurer to the Office of the Comptroller on the MMARS system.

-
- The Worcester Juvenile Court had not maintained adequate accounting control records in the implementation of the new computerized Massachusetts Management, Accounting and Reporting System (MMARS).

Inadequate Control Over Property and Equipment

Three judiciary reports revealed property and equipment deficiencies. Specifically, we found that annual inventory counts were not conducted; inventory listings were not maintained; and some inventory items were not tagged or listed, while others could not be located. As a result of these deficiencies, auditees could not be assured that their property and equipment were adequately safeguarded against loss or improper use. Examples include:

- The Chelsea District Court's Clerk's Office had not properly controlled and inventoried equipment located within the court division since 1979.
- The Dedham District Court had not adjusted its inventory lists upon receipt or disposition of equipment and had not kept the Office of the Chief Administrative Justice informed of all inventory changes as they occurred.
- The Hampden Housing Court's inventory records were not current or complete. Perpetual inventory records had not been updated since 1985. Further, no personnel had been designated as property officers responsible for maintaining and updating inventory records.
- The Malden District Court's Clerk's Office had not properly controlled and inventoried equipment within the Court.
- The Woburn District Court's inventory list did not contain adequate information to properly identify and safeguard assets.

Inefficient Purchasing Practices

Several reports disclosed purchasing practices that resulted in the Commonwealth's paying more than necessary for goods and services received. Examples include:

- The Essex County (Eastern District) District Attorney's Office chose to lease-purchase photocopying machines instead of purchasing the machines outright, paying \$6,219 more than necessary.
 - The Ipswich District Court purchased a photocopier on an installment basis over a 48-month period, spending \$1,616 in interest that would not have been necessary had it purchased the copier outright.
-

Inefficient Purchasing Practices

Continued

- The Lynn District Court financed the acquisition of two copying machines as a lease-purchase. As a result, the Court will spend \$9,808 more than if it had purchased the equipment outright. Moreover, the court charged the equipment purchase to the wrong subsidiary account.

Noncompliance with Massachusetts Statutes

Several audits disclosed violations of various provisions of the Massachusetts General Laws. Examples include:

- The Essex County (Eastern District) District Attorney's Office purchased automobile insurance at a cost of \$13,135 per year without proper approval required under Chapter 29, Section 30, of the General Laws. The result was that automobile insurance deemed unnecessary by the state was purchased.
- The Ipswich District Court's Probation Office held \$544 in partial payments in default status instead of forwarding them to the Clerk of the Court as required by Chapter 279, Section 1A, of the General Laws.

Prior Audit Results: Corrective Actions

Among the judicial system institutions that implemented the OSA recommendations contained in prior audit reports are the following:

Chelsea District Court

One of our prior recommendations had been implemented as of our most recent audit:

- The Clerk-Magistrate's Office is now transferring abandoned bail over five years old to the State Treasurer.

Essex County District Attorney's Office

- As recommended by our prior audit report, eighteen full-time employees who were on the "03" consultant payroll have been removed. Twelve new positions on the regular permanent and temporary payrolls have been created.

Ipswich District Court

Among the deficiencies corrected were the following:

- The Court now places stop payment orders on all checks that have not been cashed by the payee one year after issue.
- The cause of a cash shortage of \$2,505 has been adequately addressed. Use of an unauthorized receipt book has been discontinued and restitution on the full amount has been made.
- The Court has updated its inventory listing as required by the Office of the Chief Administrative Justice.

Malden District Court

Of the deficiencies disclosed in the prior OSA audit report, the following have been corrected:

- The Clerk-Magistrate's Office now reconciles its Budgetary Control Register to the State Comptroller's Daily Statement of Transactions and transfers forfeited bail to the State Treasurer.
- The Probation Office has forwarded to the State Treasurer the \$12,494 in restitution cases that had been inactive over one year; transferred \$16,780 in fine payments and court costs to the Clerk-Magistrate's Office; and continues to transfer such monies.

Suffolk Superior Court - Criminal Division

Most of the noted deficiencies have been corrected:

- A formal cash journal is now maintained by the Clerk's Office. A separate cash journal is now maintained for bail, and funds are deposited in a separate bank account.

Suffolk Superior Court - Criminal Division

Continued

- The Clerk's office deposits funds received from the Probation Office in a timely manner.
- The Budgetary Control Register is now properly maintained and it is in agreement with the Comptroller's records.
- The Probation Office is now properly processing partial payments for inactive accounts.

Worcester Superior Court

All deficiencies disclosed in the previous OSA report were corrected. Among them were the following:

- Unclaimed cash bail from eighty-nine cases totaling \$10,674 has been transmitted to the State Treasurer.
- Cash bail totaling \$4,325 from 27 cases in which defendants defaulted has been forfeited and sent to the State Treasurer's Office.
- A cash journal is now used to record the receipts and disbursements of Civil Escrow monies.
- Ten partially paid restitution balances, totaling \$3,898 and applying to cases in default for more than 120 days, and 13 partially paid restitution balances, totaling \$2,917 and applying to cases that have been inactive over one year, have been disbursed to the appropriate recipients.

Initiatives

Judiciary audits comprise 12% of the audits issued by the OSA during this report period. Listed below are planned and ongoing audit initiatives for improving the fiscal management of court entities.

Court Facilities

- The OSA is continuing a statewide review of the Commonwealth's court facilities to determine the effect that deterioration and space problems have had on the judicial system. In addition, the OSA is directed under Chapter 203 of 1988, the Courthouse Improvement Act, to annually audit county courthouse rental accounts and other related accounts used for the maintenance of the rented facilities.

Financial-Related Reviews of Selected Court Activities

- These reviews will examine several areas of interest including, but not limited to, payroll compliance, lease procurement, and revenue management.

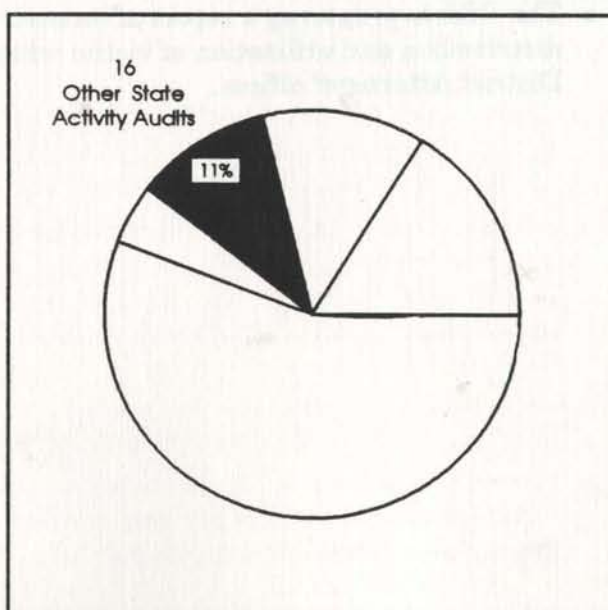
Processing of Civil Motor Vehicle Infractions (CMVIs)

- The OSA is continuing a statewide performance audit of the systems in place at district courts for processing CMVIs. This audit originated in response to prior audit results which indicated that the state and its municipalities are being deprived of the timely use of substantial amounts of revenue due them for motor vehicle infractions.

Victim Witness Assistance Fund

- The OSA is preparing a report of its statewide review of the distribution and utilization of victim witness assistance funds at District Attorneys' offices.

Other State Activity Audits



Audit Results

The remaining 16 audits issued during this report period consisted of a variety of executive department and constitutional office audits. Results from these audits, grouped according to common characteristics, include:

Inadequate Accounting and Administrative Controls

OSA audits revealed that several entities had deficiencies pertaining to internal control policies and procedures.

Examples include:

- The Group Insurance Commission did not require audit verification of claimed expenditures and did not have uniform guidelines to assist its managers in dealing with the various contractors. In addition, poor billing and collection procedures cost the Commonwealth approximately \$605,000.
- The Law Enforcement Division of the Department of Fisheries, Wildlife, and Environmental Law Enforcement did not document the expenditure of advance funds and consequently was unable to account for \$15,182 which was advanced to employees and expended for postage.

Inadequate Control over Property and Equipment

OSA audits revealed several instances where control over property and equipment needed improvement.

Examples include:

- The Dam Safety Program audit revealed that the Department of Environmental Management did not provide adequate control over its property and equipment.
- The Division of Administrative Law Appeals did not tag property or equipment in its possession, as recommended in our prior audit.
- The Public Access Board, under the Department of Fisheries, Wildlife, and Environmental Law Enforcement, did not conduct annual physical inventories and did not attach identification tags to property and equipment.

Revenue Not Maximized

OSA audits revealed the following instance of an agency not fully maximizing revenue:

- The Division of Administrative Law Appeals did not deposit receipts daily, as recommended in our prior audit report. The untimely deposit of receipts has resulted in some funds not being deposited for over 26 days, with the Commonwealth losing the immediate use of and interest income on the funds.

**Noncompliance
with State and
Federal Laws and
Regulations**

Instances of noncompliance with state statutes and regulations include the following:

- The Group Insurance Commission used \$1.87 million it held on behalf of insureds to supplement its own administrative operations. The Commission used the insureds' funds for such purposes as renovating the Commission's offices (\$626,000). The OSA does not believe that such expenditures meet either the letter or spirit of Section 9 of Chapter 32A of the General Laws, which grants the Commission authority to expend these funds "in the best interest of the insured employees and retired employees."
- The Group Insurance Commission split four purchases totalling over \$20,000 into 48 individual purchase orders of less than \$500 each to circumvent purchasing regulations which are designed to encourage obtaining the lowest competitive cost to the Commonwealth.

Prior Audit Results: Corrective Actions

Corrective action, based on OSA recommendations, was taken in the following instances:

Dam Safety Program

The follow-up review of the Department of Environmental Management's Dam Safety Program revealed that our recommendations for improving the effectiveness of the program have been addressed. The following improvements have been developed and implemented:

- A master inventory of dams in Massachusetts.
- Standardized, comprehensive inspection and documentation procedures.
- Formal procedures to monitor and encourage the repair of unsafe dams.

Division of Law Enforcement

The following reforms were implemented based upon our prior audit findings:

- The Division has instituted perpetual inventory control procedures.
- The Division is now retaining documentation of expenditures charged to its federal grant account.

Executive Office of Labor

All issues identified in the prior OSA audit have been addressed.

- The agency's purchasing practices during our current audit were in compliance with the Commonwealth's purchasing procedures.
- Required inventory records are now being maintained, and office equipment and data processing equipment are tagged.
- The agency has discontinued the practice of spending money from its state appropriation (\$2,346 identified in the prior audit) for coffee, tea, and soup for employees.

The Retirement Law Commission

- As recommended in the prior OSA audit report, the Commission is now fully monitoring "03" consultant contracts.

Initiatives

Agency Compliance with Construction and Procurement Regulations

- The OSA has completed a survey of agency compliance with Executive Order 237, and other regulations regarding participation of minority and women-owned businesses in procurement and construction contracts. A study is being prepared for submission by January 2, 1989, as required by line item 9000-1815 of the FY'89 Budget.

Contractor Claims

- This audit will review the payment systems in place at state agencies that deal with construction contracts. Issues that will be examined include: final voucher payments, estimated completion date, overpayments and extra work orders, change orders, etc. Agencies to be reviewed are the Department of Public Works, Metropolitan District Commission, Division of Capital Planning and Operations, and any other agencies identified during the survey process.

Depression of Central Artery/Third Harbor Tunnel/North Central Artery Projects

- These audits will review the Executive Office of Transportation and Construction (EOTC) and the Department of Public Works' (DPW) current plan of action for these major transportation projects. Auditors will be stationed on-site during all phases of these multi-billion dollar projects, including contract procurement and construction. These monitoring efforts are intended to assist management in keeping the projects on schedule, with a minimum of cost overruns.

Division of Environmental Quality Engineering (DEQE)

- The OSA will review the contract procurement and management systems in place at DEQE. Specific emphasis will be placed on contracts dealing with hazardous waste clean-up projects.

Massachusetts Commission Against Discrimination

- The OSA is continuing an audit of the Massachusetts Commission Against Discrimination's administrative controls over the processing of complaints.

Non-tax Revenues

- The OSA is near completion of three statewide audits which identify potential non-tax revenue available to the Commonwealth. The first audit focuses on agencies' billing practices, procedures for collecting and depositing funds, and methods of handling delinquent accounts and write-offs. In a second audit, the OSA has reviewed billing systems at state schools and state hospitals to determine if the Commonwealth is fully recovering all third-party reimbursements to which it is entitled. Finally, the OSA has examined the time lapse between state funding of projects and the receipt of federal reimbursement to determine the amount of interest the Commonwealth may be losing and to identify ways of billing federal agencies in a more timely manner.

Audit Results

During the report period, the OSA released two Electronic Data Processing (EDP) Audit reports. The primary result, identified below, involved a lack of disaster recovery procedures.

Weaknesses in Disaster Recovery

- The Greenfield Housing Authority lacked a disaster recovery plan and did not provide adequate backup for data files.

Prior Audit Update

- Worcester State College has corrected internal control problems noted in a prior audit.

Audit Initiatives

- The EDP Audit Section has generated 81 data extracts for this report period, thereby assisting the OSA's Audit Operations Division to access and analyze audit-related information, as well as reducing hours of manual research during the audit. In addition, the EDP Audit Section performed 88 random number samples. Random number samples provide random number sets within requested specific number ranges (strata). These random number sets are used to help meet the professional statistical sampling standards used in performing various OSA manual field audit sampling tasks.
- The EDP Audit Section is continuing its data processing (DP) survey of those state entities that are reviewed by the OSA. During the timespan of this report, EDP Audit Section contacted over 500 state agencies, requesting information on DP operations that fall under the review of the OSA. Completed surveys have been received from 300 agencies, with 100 entries made into a specially designed data base. In addition, risk analysis and site visits have been performed at 39 agency locations. Evaluation of DP survey data continues to provide the OSA with pre-audit period information, thereby assisting in audit scheduling and planning.
- The EDP Audit Section is participating in integrated audits of the Registry of Motor Vehicles, Massachusetts Water Resources Authority, and Non-tax Revenues.

Enforcement Agencies: Referrals & Requests

OSA audits not only attempt to safeguard the state's assets but to ensure compliance with the laws of the Commonwealth. Because OSA audits may disclose possible violations of state law, the OSA cooperates with various law enforcement agencies such as county district attorneys, the Department of Public Health and local health authorities, the Secretary of Public Safety's Office of Investigations, the Attorney General's Office, the Office of the Inspector General, and the State Ethics Commission. In addition, the OSA routinely reports violations of income-reporting laws and regulations to the Internal Revenue Service and the Massachusetts Department of Revenue. Finally, during this report period, the OSA was asked by several law enforcement agencies to provide them with technical assistance during specific investigations.

Referrals:

Internal Revenue Service & Department of Revenue

Chelmsford Housing Authority

The Chelmsford Housing Authority did not issue IRS 1099-MISC income information forms to its fee accountant and its winter maintenance employee, who were paid \$10,125 over calendar years 1984, 1985, and 1986.

The Harbor View Rest Home

The Rest Home failed to remit to the Commonwealth and the federal government a total of \$48,963 in payroll taxes for calendar years 1985 and 1986 (\$35,975 of this amount was withheld from the Home's employees' paychecks, and the remaining \$12,988 was the Home's share of its employees' Social Security taxes). The Home also failed to file both state and federal tax forms during these years.

Newburyport Housing Authority

The Newburyport Housing Authority did not issue the required Internal Revenue Service 1099-MISC income information forms to a private contractor who was paid \$5,060 in calendar years 1985 and 1986.

Norton Housing Authority

The Norton Housing Authority neglected to report quarterly withholdings from employees in two quarters and payments to 707 Rental Assistance landlords totalling \$12,229 to the IRS during our audit period.

Oxford Housing Authority

The Oxford Housing Authority did not comply with state and federal regulations requiring consistent payroll tax deductions each pay period with respect to the Executive Director's salary payments.

Saugus Housing Authority

The Saugus Housing Authority did not issue IRS Form 1099-MISC to various service providers who were paid \$14,815 during calendar year 1986.

Springfield Housing Authority

The Springfield Housing Authority did not implement a federal statute requiring it to match the employee contribution to the Medicare portion of the Social Security tax. As a result, the Authority and its new employees have an unfunded tax liability of \$1,014.

Referral: Office of the Inspector General (OIG)

Mass. Water Resources Authority

The OSA referral was relative to procurement procedures utilized by the MWRA for Program and Construction Management Services for Deer Island-Related Construction and resulted in a joint OSA/OIG review and report.

Referral: State Ethics Commission

Mass. Water Resources Authority

The OSA referral was relative to possible conflict of interest violations by MWRA officials during the process of procuring Program and Construction Management Services for Deer Island-Related Construction.

Law Enforcement Requests for Special Assistance

Below are four requests for special assistance that came to the OSA during the report period or were completed during the period. Because the Department of Public Work's (Worcester) investigation is ongoing, it is inappropriate at this time for the OSA to comment in detail on this review.

Bridgewater State College

As reported in its last semi-annual report, the OSA, at the request of the Secretary of Public Safety's Office of Investigations and the state's Attorney General, expanded the scope of our already ongoing audit at Bridgewater State College (BSC). This review, which details a pattern of abuse of authority by the former BSC president and the failure of BSC's Trustees to adequately maintain a control environment, was released on August 26, 1988 and will be detailed in the OSA's next six-month report.

Harbor View Rest Home

The OSA, at the request of the Barnstable County District Attorney, initiated a review of the financial activities of Harbor View. Our audit work disclosed a failure by the Department of Public Health to take action on substandard operating conditions at Harbor View and waste and abuse of state, patient, and federal funds totalling at least \$343,856. As a result of our audit work, the D.A.'s office obtained indictments for larceny and forgery against the licensed administrator and a member of the Board of Directors at Harbor View.

Massachusetts Hospital School

The Massachusetts Hospital School, the Department of Public Health, and the Attorney General's Office requested our assistance relative to the alleged misappropriation of funds by the former steward to the school. The review concluded that, because certain financial and inventory functions were not properly segregated, the steward, who had control over inventory transfers, could receive cash and checks and also maintain financial records. In our opinion, this absence of properly segregated responsibilities resulted in the alleged theft of \$12,998.

Department of Public Works (Worcester)

The OSA, in conjunction with the Worcester County District Attorney's Office, is continuing to assist in an ongoing investigation of the DPW's inventory controls, procurement practices, and control of assets, materials, and supplies.

Division of Local Mandates

The Division of Local Mandates (DLM) was created by Proposition 2 1/2 to ensure that no cost obligations are passed on to cities and towns by the Commonwealth through new state-mandated programs without state funding. The primary function of DLM is to conduct impartial reviews and cost determinations of any law or regulation passed after January 1, 1981 and also of pending legislation. (For a listing of DLM determinations and cost studies for the period of January, 1988 to July, 1988 see Appendix II, Page 77).

In addition to making mandate determinations, DLM dedicated its resources to cost determinations, legislative studies, and a special review of the laws and regulations governing special education (Chapter 766).

Special Education (Chapter 766) Review

As stated in the last Semi-Annual Report, DLM has begun a study of special education in Massachusetts under the Sunset Law, Ch. 126 of the Acts of 1984. The Sunset Law authorizes the Office of the State Auditor's Division of Local Mandates to review any existing legislation having a significant fiscal impact on cities and towns. Clearly, special education, which involves approximately \$500 million annually in state and local expenditures, falls into this category.

The Division of Local Mandates is well into its study of laws and regulations governing special education in the Commonwealth. The focus of the study has been on the topics frequently cited as matters of concern, such as transportation, educational collaboratives, out-of-district placements, rate setting, and tuition.

In addition, the OSA's Division of State Audits has begun an audit of the state Department of Education (DOE). Performance audit objectives have been designed to specifically address areas of concern identified through DLM staff interviews with dozens of individuals and organizational representatives, including educators, parents, advisory groups, municipal officials, agency staff, legislative leaders, and advocates involved with special education.

DLM is also working with the OSA's Electronic Data Processing Audit Section to establish an in-house data base to identify and analyze statewide trends in special education placements and financing options. A survey has been developed to collect original data relative to educational collaboratives. Working with DOE and the Rate Setting Commission (RSC), the staff have designed analytical spread sheets on special education transportation vendors and private school tuition rates.

DLM is also working toward its goal of making recommendations to the Legislature for a more efficient and economic operation of Chapter 766, resulting in a more productive delivery of essential services.

Legislative Studies

House No. 92

Teacher Certification Bill

At the request of Executive Director Peter Finn of the Massachusetts Association of School Superintendents, the Division of Local Mandates reviewed House No. 92, AN ACT ESTABLISHING IMPROVED STANDARDS IN TEACHER PREPARATION AND CERTIFICATION to determine the mandate implications of the legislation.

House No. 92, sponsored by the Department of Education, would revise the teacher certification process in Massachusetts. The bill would mandate public school systems to (1) select certain teachers within the system to serve as mentor teachers, supervising new teachers who have been certified on a provisional basis by DOE, and (2) grant the supervisory teachers adequate release time from regular teaching responsibilities to enable them to fully perform their additional duties.

DLM has determined that since certain provisions of House No. 92 would, if enacted, impose new compliance costs on cities and towns, this statute would be a mandate without funding. As originally proposed, the bill would amend M.G.L. c. 71, s. 38G but would not specify the amount of compensation the mentor teachers would receive nor the quantity of release time they would be granted. However, amendments added by the Joint Committee on Education would require an annual stipend of \$5,000 for mentors, as well as twenty percent of time released from their regular teaching duties, thereby necessitating the hiring of additional teachers.

According to DOE reports, the implementation of this bill would result in an annual cost of over \$12 million to public school systems throughout the Commonwealth. The Auditor has therefore requested that the legislation be amended to include appropriations necessary to assume local implementation costs.

Senate No. 26**Real Estate Tax Bill**

At the request of Senator John P. Burke and Representative Thomas M. Finneran, the co-chairmen of the Joint Committee on Banks and Banking, the Division studied the financial impact on municipalities of Section 1 of Senate No. 26.

The bill, entitled AN ACT RELATIVE TO A BANK'S OBLIGATION FOR FINES ON LATE TAX PAYMENTS PAID FROM ESCROW ACCOUNTS HELD BY BANKS, would require municipal tax collectors to send a separate tax bill for each individual parcel of real estate to the mortgagee of record, in addition to the listed owner.

The Division conducted a study of the financial ramifications of Senate No. 26 on municipalities by consulting with municipal tax collectors, the Department of Revenue, and representatives from the banking and real estate industries. In addition, 34 municipalities, including the City of Boston, completed a survey estimating related costs.

According to the survey's findings, there are approximately 1.8 million individual parcels of real estate in Massachusetts with an estimated 80% of these properties mortgaged. Results indicated that close to 50% of mortgagors are required to prepay property taxes. To be in compliance with this legislation, over 1.4 million property-tax notices would have to be sent to mortgage holders of approximately 720,000 prepaid tax escrow accounts. First-year municipal implementation cost projections indicated that an appropriation of approximately \$2 million would be required to assume these notification costs.

Mandate & Cost Determinations

Polling Funds

The Division of Local Mandates, in accordance with Chapter 508, Section 3 of the Acts of 1983, is charged with determining the incremental cost to municipalities of extended polling hours resulting from the 1983 law expanding polling hours by three hours from 10:00 a.m. to 8:00 p.m. to 7:00 a.m. to 8:00 p.m., thus providing the citizens of Massachusetts additional time to vote.

Communities provide documentation of their additional cost to the Division of Local Mandates for review and certification. This has resulted in all but one municipality in Massachusetts sharing in the distribution of over \$786,000 to offset costs for coverage of extended voting hours for the September and November 1988 elections.

Solid Waste Act

At the request of Mayor George Colella of Revere, representing nineteen cities and towns which contract to dispose of solid waste at the Refuse Energy Systems Company (RESCO) facility in Saugus, the Division reviewed certain provisions of the Solid Waste Act, Chapter 584 of the Acts of 1987.

The Division was requested to determine whether the state funding obligations of the local mandate law applied to costs relating to the requirement that acid gas scrubbers be installed at RESCO. The determination was that it did not.

DLM's position specifically stated that this provision of the Solid Waste Act does not set any compliance expectations for the municipalities contracting with RESCO. As the "owner or operator" of a refuse burning facility, it is RESCO who holds ultimate responsibility for installing the acid gas scrubbers. Municipal contractors are not compelled by the Solid Waste Act to take any action or pay any increased fees.

DLM also determined that M.G.L. c. 21H, s. 6, which was added to St.1987, c. 584, s. 3, requiring that three percent of tipping fees for waste disposal at refuse-burning facilities be set aside by the facility operator for future costs connected with pollution abatement, was not legally a state-mandated cost on municipalities contracting with private refuse-burning facilities.

This determination was based on the same principle applied to the RESCO issue, which is that the law sets compliance expectations only on private facilities and not directly on cities and towns contracting with those facilities.

The three percent set-aside requirement of the Solid Waste Act has been delayed until July 1, 1992 to allow municipalities who contract with incinerators to plan for this item in future budgets. The delay of this requirement was accomplished by Section 159 of the Fiscal Year 1989 State Budget, effectively amending the Solid Waste Act.

Office of the State Auditor Legislative Agenda

The legislative package developed and presented to the Legislature by the OSA addresses significant audit results and, additionally, seeks to increase the efficiency and effectiveness of audit operations. The package, therefore, complements individual audit recommendations by suggesting corrective actions in a comprehensive and useful manner.

What follows is a summary of bills introduced in the 1988 legislative session and a review of the progress of each bill to date.

Enacted

Chapter 78

An Act Authorizing the State Auditor's Office to Conduct Biennial Audits of State Agencies

- The Biennial Audits Act brings the thirty-two state entities which were previously subject to annual OSA audit under the mandate of Section 12 of Chapter 11 of the MGLs, which requires that all state agencies be audited at least once every two years. By allowing the Auditor to review an agency as often as he believes necessary, but at least once every two years, this law provides the Auditor with the flexibility to structure his audit plan in a most efficient and productive manner.

Chapter 78, previously House 13, was signed into law on June 22, 1988

Chapter 107

An Act Further Regulating the Work Experience Requirements for Certain Government Auditors

- The CPA Equalization Bill equalizes the public and private sector work experience requirements needed to become a Certified Public Accountant. Previously, an OSA candidate for CPA certification was required to have two to three times as much work experience as a similar candidate in the private sector. This law corrects an inequity. It also provides an incentive for accountants who want to remain in the public sector and assists public employers who are trying to recruit the most qualified candidates.

Chapter 107, previously Senate 1698, was signed into law on July 6, 1988.

Pending

House 11

An Act Relative to Improving the Internal Controls Within State Agencies

- This bill would require each state agency to establish a formal internal control system. The standards that these systems must meet are defined by the bill, which was filed in response to common critical audit findings indicating a lack of sufficient internal controls within agencies. This comprehensive proposal would help to improve fiscal management by requiring the kind of documentation of an agency's internal control system that enables oversight agencies to more effectively monitor the system and make recommendations for its improvement. It would also assist agencies in identifying causes for, and taking action to avoid, losses and shortages.

H.11 was reported out favorably by the Committee on State Administration and is currently pending before the House Ways and Means Committee.

House 12

An Act Extending the Reporting Date for the Filing of Certain Financial Statements

- This bill would extend by approximately one month the length of time allowed to the Commissioner of Revenue and, by five weeks, the length of time allowed to the State Auditor, to fulfill their responsibilities relative to the tax limitations provisions of Chapter 62F of the Massachusetts General Laws. This time frame is more reasonable and less likely to drain resources from other agency tasks than is the current time frame. In addition, easing time constraints in a limited way would not adversely affect the return of money under the Tax Cap, because revenues determined to exceed the cap are not returned to taxpayers until the following calendar year.

H.12 has been engrossed in the House and is currently pending before the Senate Ways and Means Committee.

House 14

An Act Requiring State Agencies to Notify the Division of Local Mandates of Proposed Regulations Imposing Costs on Cities and Towns

- This bill would help to identify proposed state regulations which might impose additional costs on cities and towns. It would also provide that the Division of Local Mandates (DLM), when requested to do so by an administrative agency, assist in determining the financial effect of any proposed regulation. The legislation would neither grant any approval authority to the

DLM nor otherwise lengthen the process of rule making set by the Administrative Procedures Act. Its aim is to ensure that agencies formally consider the local financial impact of new regulations, while providing the assistance of the DLM in measuring such impact.

H.14 was engrossed in the House and is currently pending before the Senate Ways and Means Committee.

House 16

An Act Providing for the Deposit of Unclaimed Money with the State Treasurer

- This bill, filed jointly with the State Treasurer's Office, would create a centralized fund in the State Treasurer's Office that would serve as a repository for unclaimed funds currently held by the probate courts. This bill, which was filed in response to audit results indicating a need for improved control over, and management of, these funds, provides that the Treasurer's Office establish a statewide program designed to locate missing beneficiaries and to invest any abandoned monies to maximize interest income.

H.16 is currently pending before the Committee on the Judiciary.

House 5947

An Act Further Defining the Duties of the Department of the State Auditor

- This bill updates obsolete language in the Auditor's enabling statute; codifies the current practice of conducting audits in accordance with recognized professional standards; and authorizes the Office of the State Auditor to audit activities funded by state grants.

H. 5947 has been engrossed in the House and is currently pending before the Senate Ways and Means Committee.

Private Occupational Schools: Financial Evaluations

Chapters 75C, 75D, and 93 of the Massachusetts General Laws require the Office of the State Auditor to annually evaluate the financial position of all applicants for licensure or registration as private business, trade, and correspondence schools. These student protection statutes were enacted to ensure that occupational schools requesting licensure or registration from the Department of Education are financially, as well as academically, qualified to operate in Massachusetts.

Educational institutions, determined by the OSA to be financially responsible, must then secure a bond in the amount recommended by the Office of the State Auditor. These tuition compensation bonds allow students to recover damages resulting from fraud, misrepresentation of student recruitment, or breach of contract.

As of July 31, 1988, there were 145 private occupational schools on the OSA Active File, representing our approval of the annual financial applications filed by 85 active business schools, 51 active trade schools, and 9 active correspondence schools.

During the past year 15 prospective new schools were determined to be financially qualified for original licensure or registration, while 39 schools were removed from the Active File. These schools were either found to have discontinued operations, determined to be financially ineligible for licensure, or found to no longer fall under the jurisdiction of Chapters 75C, 75D, and 93 of the General Laws. During the period covered by this report, a total of 84 applications were approved by this office as follows:

Financial Evaluations January 1, 1988 through July 31, 1988				
	Chapter 75D Business Schools	Chapter 93 Trade Schools	Chapter 75C Correspondence Schools	Total
January 1988	10	3	0	13
February	11	4	1	16
March	9	3	1	13
April	8	7	0	15
May	5	3	0	8
June	3	3	2	8
July	7	4	0	11
TOTAL	53	27	4	84

Active Financial Certifications As of July 31, 1988			
	Approved- Office of the State Auditor	Approved- Dept. of Education	Pending- Dept. of Education
Chapter 75D-Business Schools	85	81	4
Chapter 93 - Trade Schools	51	50	1
Chapter 75C -Correspondence Schools	9	8	1
TOTAL	145	139	6

Appendix I

Audit Reports Issued

Authority Audits

AUDIT	AUDIT NUMBER	ISSUE DATE
1. Abington Housing Authority	88-3226-8	1/26/88
2. Amesbury Housing Authority	88-3228-8	6/03/88
3. Amherst Housing Authority	88-3212-1	4/15/88
4. Amherst Redevelopment Authority	88-874-1	7/22/88
5. Avon Housing Authority	88-3219-8	2/29/88
6. Belchertown Housing Authority	88-3248-8	7/22/88
7. Bellingham Housing Authority	88-610-8	1/26/88
8. Berkshire County Regional Planning Commission	88-573-6	7/22/88
9. Berkshire Regional Transit Authority	88-876-6	4/20/88
10. Billerica Housing Authority	88-3203-8	3/04/88
11. Bourne Housing Authority	87-618-8	1/26/88
12. Brockton Redevelopment Authority	88-3258-8	7/11/88
13. Burlington Housing Authority	88-3176-8	5/11/88
14. Chatham Housing Authority	88-629-1	5/05/88
15. Chelmsford Housing Authority	88-3185-8	6/07/88
16. Chicopee Housing Authority	88-3231-8	5/18/88
17. Danvers Housing Authority	88-639-8	6/27/88
18. Dennis Housing Authority	88-642-1	3/31/88
19. Dighton Housing Authority	88-643-1	3/03/88
20. Easton Housing Authority	88-3191-8	3/25/88
21. Everett Housing Authority	88-3214-8	7/18/88
22. Falmouth Housing Authority	88-3198-8	2/26/88
23. Framingham Housing Authority	88-3197-8	1/28/88
24. Franklin Regional Transit Authority	88-1275-6	4/20/88
25. Gardner Housing Authority	88-3224-8	7/06/88
26. Greenfield Housing Authority (EDP)	88-669-41	2/22/88
27. Greenfield Housing Authority	88-3186-8	6/07/88
28. Greenfield Montague Transportation	88-1276-6	4/22/88
29. Halifax Housing Authority	88-1287-1	4/18/88
30. Halifax Housing Authority	88-3239-8	5/27/88
31. Hampden Housing Authority	88-842-1	7/25/88
32. Hampshire County Regional Housing	87-1047-6	3/30/88
33. Hanson Housing Authority	88-902-1	5/25/88
34. Hingham Housing Authority	88-674-1	4/21/88
35. Holbrook Housing Authority	88-3218-8	2/24/88
36. Hudson Housing Authority	88-3234-8	6/22/88
37. Kingston Housing Authority	87-686-1	4/22/88
38. Lexington Housing Authority	88-694-1	6/29/88
39. Littleton Housing Authority	88-3222-8	3/31/88
40. MBTA Monthly Pass Program	86-583-5	2/29/88
41. Marshfield Housing Authority	88-708-1	5/25/88

Judiciary Audit

Education Audit

	AUDIT	AUDIT NUMBER	ISSUE DATE
	42. Mass. Water Resources Authority	88-4009-3	3/29/88
	43. Medfield Housing Authority	88-711-1	6/27/88
	44. Melrose Housing Authority	88-3178-8	6/21/88
	45. Merrimac Housing Authority	88-3199-8	3/25/88
	46. Methuen Housing Authority	87-3158-8	2/01/88
	47. Methuen Housing Authority	88-3204-8	2/26/88
	48. N. Attleboro Housing Authority	88-3195-8	2/26/88
	49. Natick Housing Authority	88-3175-8	6/08/88
	50. Newburyport Housing Authority	87-734-1	6/16/88
	51. Northampton Redevelopment Authority	88-741-1	6/24/88
	52. Northborough Housing Authority	88-744-1	7/22/88
	53. Norton Housing Authority	87-747-1	3/14/88
	54. Norwell Housing Authority	87-854-1	7/26/88
	55. Norwood Housing Authority	88-3235-8	6/24/88
	56. Orange Housing Authority	87-749-1	5/09/88
	57. Oxford Housing Authority	88-3225-8	7/11/88
	58. Palmer Housing Authority	88-752-1	6/15/88
	59. Pembroke Housing Authority	88-756-1	4/22/88
	60. Pembroke Housing Authority	88-3259-8	7/18/88
	61. Pepperell Housing Authority	88-1071-1	6/08/88
	62. Pioneer Valley Planning Commission	88-575-6	7/22/88
	63. Pioneer Valley Transit Authority	88-877-6	4/20/88
	64. Provincetown Housing Authority	88-1049-1	6/10/88
Other State	65. Rockport Housing Authority	88-767-1	6/29/88
	66. Saugus Housing Authority	88-3221-8	7/19/88
	67. Scituate Housing Authority	88-3240-8	7/06/88
	68. Springfield Housing Authority	88-3187-8	3/31/88
	69. Stockbridge Housing Authority	88-3223-8	7/25/88
	70. Stoughton Housing Authority	88-3194-8	3/31/88
	71. Tewksbury Housing Authority	88-796-1	6/17/88
	72. Tewksbury Housing Authority	88-3257-8	7/06/88
	73. Topsfield Housing Authority	88-859-1	7/26/88
	74. West Bridgewater Housing Authority	88-810-1	4/18/88
	75. Walpole Housing Authority	88-3247-8	7/26/88
	76. Ware Housing Authority	88-3211-8	3/14/88
	77. Wareham Housing Authority	88-803-1	3/14/88
	78. Wayland Housing Authority	88-3193-8	3/07/88
	79. Westfield Housing Authority	87-811-8	3/31/88
	80. Westford Housing Authority	88-812-1	5/25/88
	81. Wilbraham Housing Authority	87-818-1	3/31/88
	82. Williamstown Housing Authority	88-3229-8	7/19/88
	83. Winchester Housing Authority	88-821-1	5/20/88

Education Audits

AUDIT	AUDIT NUMBER	ISSUE DATE
1. Holyoke Community College	87-195-7	6/16/88
2. Middlesex Community College	87-199-1	4/14/88
3. New England Board of Higher Education	88-60-6	6/22/88
4. North Shore Community College	87-202-1	6/29/88
5. Westfield State College	88-185-1	2/17/88
6. Westfield State College	87-185-1	2/17/88
7. Worcester State College (EDP Audits)	88-186-4	2/12/88

Human Services Audits

1. Associated Day Care Services	88-4008-3	4/15/88
2. Child Development Programs of Cape Ann	88-4006-3	6/08/88
3. DPH- Maternal/Child Health Services	87-3131-1	6/16/88
4. DPH-Maternal/Child Health Services	88-3205-1	6/16/88
5. DPH-Preventive Health Services	86-3128-1	6/16/88
6. DPH-Preventive Health Services	87-3168-1	6/16/88
7. DPH-Preventive Health Services	88-3189-1	6/16/88
8. Dept. of Mental Health-Region V	87-243-1	4/29/88
9. Dr. John C. Corrigan Mental Health Center	87-251-1	3/08/88
10. Dr. Harry C. Solomon Mental Health Center	87-250-5	6/17/88
11. Dr. Solomon Carter Fuller Mental Health Center	87-260-5	1/26/88
12. Erich Lindemann Mental Health Center	87-253-1	3/30/88
13. Harbor View Rest Home	88-6006-9	7/29/88
14. Hogan/Berry Regional Centers	87-247-1	3/31/88
15. Interim Report-Health Care Programs	88-5016-9	7/01/88
16. Lemuel Shattuck Hospital	87-300-1	2/17/88
17. Mass. Correctional Industries	88-1002-1	6/03/88
18. Mass. Hospital School	88-6001-9	3/23/88
19. Monson Developmental Center	88-262-1	6/29/88
20. Norfolk Pre-Release Center	88-888-1	6/29/88
21. North Central Correctional Institution	87-1274-1	5/09/88
22. Northeastern Family Institute	87-1080-5	3/23/88
23. Our House, Inc.	87-4007-3	4/29/88
24. Park Drive Pre-Release Center	86-927-1	2/29/88

Judiciary Audits

AUDIT	AUDIT NUMBER	ISSUE DATE
1. Berkshire County District Attorney	88-1261-1	6/30/88
2. Berkshire Probate & Family Court	88-1227-1	5/05/88
3. Bristol County District Attorney	88-1264-1	2/17/88
4. Chelsea District Court	87-1133-1	4/29/88
5. Dedham District Court	87-1160-6	4/14/88
6. Essex County District Attorney	87-1257-1	2/29/88
7. Hampden Housing Court	88-1212-1	3/22/88
8. Hampden Superior Court	88-1113-1	3/11/88
9. Ipswich District Court	87-1154-1	4/14/88
10. Lynn District Court	87-1157-6	1/28/88
11. Malden District Court	87-1146-1	1/26/88
12. Office of the Chief Justice-Probate & Family Court Dept.	88-1220-1	3/11/88
13. Plymouth Superior Court	88-1122-1	1/26/88
14. Springfield Juvenile Court	88-1244-1	2/17/88
15. Suffolk Superior Court-Criminal Division	87-1109-1	4/14/88
16. Victim and Witness Assistance Board	88-74-1	6/29/88
17. Woburn District Court	87-1148-1	4/29/88
18. Worcester Juvenile Court	88-1246-1	2/17/88
19. Worcester Superior Court	88-1117-1	4/06/88

Other State Activity Audits

1. Boston Metropolitan District	88-581-1	6/27/88
2. DEM Dam Safety Program	87-276-2	4/15/88
3. Division of Law Enforcement	88-281-1	6/30/88
4. Division of Administrative Law Appeals	88-345-1	4/15/88
5. Executive Office of Labor	88-1324-1	6/10/88
6. Group Insurance Commission	87-40-1	7/29/88
7. House Post Audit & Oversight	88-1280-1	6/07/88
8. Joint Labor Management Commission	88-1018-1	4/28/88
9. Labor Relations Commission	88-230-1	4/06/88
10. MDC-Revere Beach Reservation	86-271-2	7/01/88
11. Mass. Aeronautics Commission	88-44-1	1/28/88
12. Mass. Historical Commission	88-83-1	6/07/88
13. Mass. Tech Park Corp	88-1304-6	1/26/88
14. Office of Employee Relations	88-369-1	3/08/88
15. Public Access Board	88-288-1	6/07/88
16. Retirement Law Commission	88-63-1	4/28/88

Item	Value	Item	Value	Item	Value	Item	Value
1	10.00	1	10.00	1	10.00	1	10.00
2	20.00	2	20.00	2	20.00	2	20.00
3	30.00	3	30.00	3	30.00	3	30.00
4	40.00	4	40.00	4	40.00	4	40.00
5	50.00	5	50.00	5	50.00	5	50.00
6	60.00	6	60.00	6	60.00	6	60.00
7	70.00	7	70.00	7	70.00	7	70.00
8	80.00	8	80.00	8	80.00	8	80.00
9	90.00	9	90.00	9	90.00	9	90.00
10	100.00	10	100.00	10	100.00	10	100.00
11	110.00	11	110.00	11	110.00	11	110.00
12	120.00	12	120.00	12	120.00	12	120.00
13	130.00	13	130.00	13	130.00	13	130.00
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15	150.00	15	150.00	15	150.00	15	150.00
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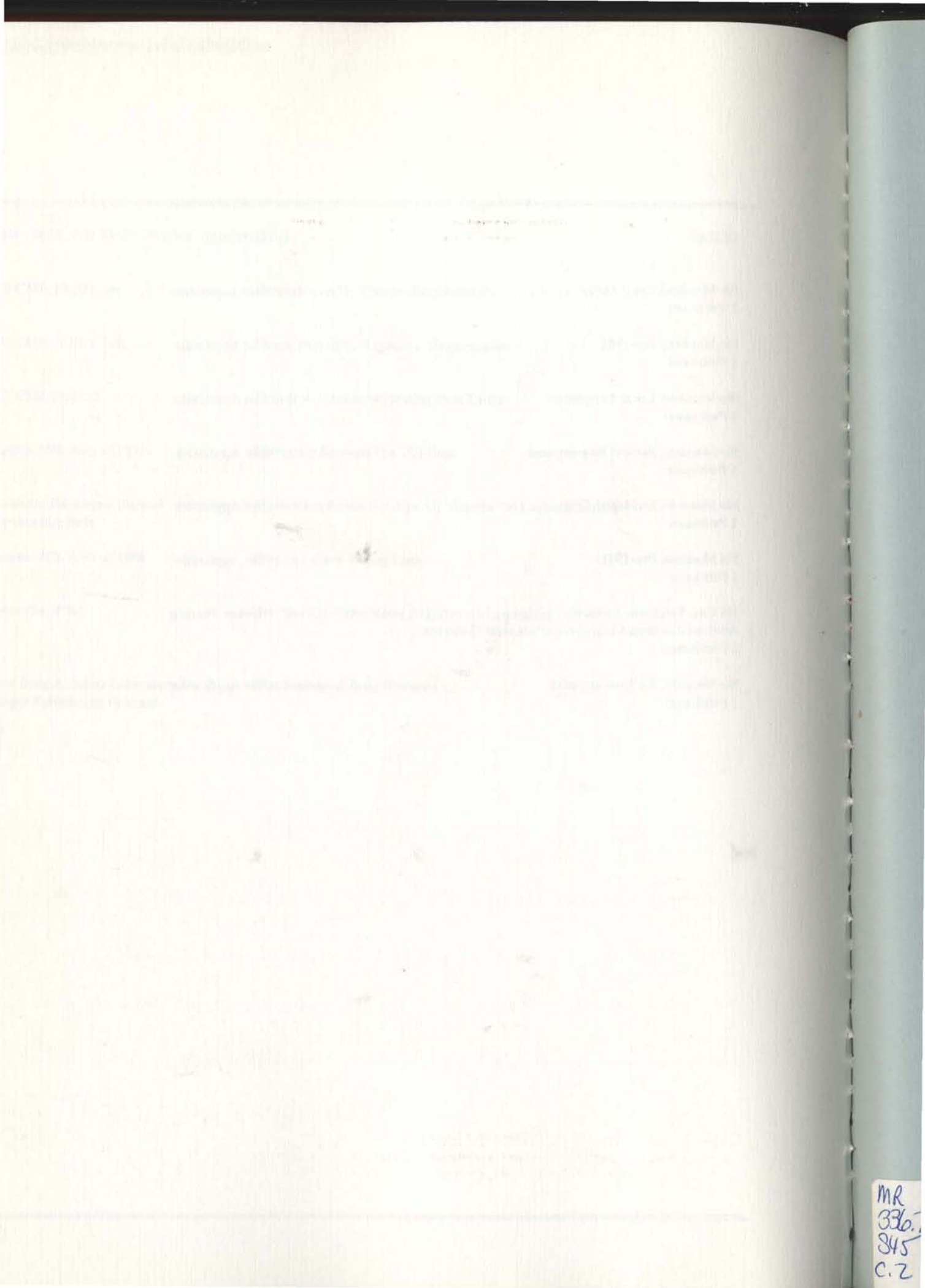
Appendix II

Division of Local Mandates Determinations & Cost Studies

LAW, RULE, OR REGULATION	ISSUE
House No. 92	An Act Establishing Improved Standards In Teacher Preparation And Certification
Senate No. 26	An Act Relative To A Bank's Obligation For Fines On Late Tax Payments Paid From Escrow Accounts Held By Banks
G. L. C. 503	Increased Municipal Polling Hours For State Elections
Chapter 620, Acts of 1986	Safe Roads Act - Infrared Breathalizers
Chapter 305, Acts of 1987	Precinct Redistricting For March 1988 Elections
105 CMR 170.000 et seq.	Ambulance Service Regulations
Chapter 584, Acts of 1987	Solid Waste Act, Acid Gas Scrubbers, Three Percent Tipping Fee
Chapter 372, c. 10(a) Acts of 1984	MWRA Water And Sewer Rates
G.L. c. 40B, ss. 20, 21	Low And Moderate Income Housing
760 CMR 37.00 et seq.	Home Ownership Opportunity Program
Senate No. 231	An Act To Reimburse Regional School Districts For Costs Of Mandates On Regional Schools
Chapter 589, Acts of 1987	An Act Relative To Dispute Resolution For Fire Department Officials
Chapter 346, Acts of 1986	School Breakfast Law
Chapter 424, Acts of 1984	Tuition Cost For Post-Secondary Vocational Education Students Age Twenty And Older
Chapter 44, Acts of 1987	Automobile Fire Reports And Investigations
603 CMR 508.000	Handicapped Accessibility For Special Education Students

RESULT	FUNDING
Statewide Cost Estimate For House Ways And Means Committee 1 Petitioner	\$12,000,000 For Legislative Consideration
Statewide Cost Estimate For Taxation Committee	\$1,909,000 For Legislative Consideration
Statewide Cost Determination For 350 Municipalities	\$786,124 Cost Determination Submitted To Secretary of State For Funding Distribution
Mandate, Statewide Cost Estimate 10 Petitioners	\$35,892 In Deficiencies \$200,000 Statewide Cost Determination
Mandate, Statewide Cost Determination 6 Petitioners	\$6,330 In Deficiencies \$72,407 Statewide Cost Determination
Mandate, 11 Petitioners	\$59,935 In Deficiency Determinations Submitted To Department Of Public Health For Funding Distribution
No Mandate, Indirect Costs 57 Petitioners	Not Applicable
No Mandate, Indirect Costs 2 Petitioners	Not Applicable
No Mandate, Pre-1981 1 Petitioner	Not Applicable
No Mandate, Pre-1981 1 Petitioner	Not Applicable
No Mandate, Offered Legislative Support To Senate Committee On Ways And Means	Not Applicable
No Mandate, Pre-1981 1 Petitioner	Not Applicable
No Mandate, State Funding Available 1 Petitioner	Not Applicable
No Mandate, Local Acceptance 1 Petitioner	Not Applicable
No Mandate, Pre-1981 1 Petitioner	Not Applicable
No Mandate, Pre-1981 1 Petitioner	Not Applicable

RESULT	FUNDING
No Mandate, Court Order 1 Petitioner	Not Applicable
No Mandate, Pre-1981 1 Petitioner	Not Applicable
No Mandate, Local Acceptance 2 Petitioners	Not Applicable
No Mandate, Federal Requirement 1 Petitioner	Not Applicable
No Mandate, Incidental Costs 1 Petitioner	Not Applicable
No Mandate, Pre-1981 1 Petitioner	Not Applicable
No Cost Estimates Available Advised Elections Committee of Mandate Concerns 2 Petitioners	Review Pending
No Mandate, No Cost Imposed 1 Petitioner	Not Applicable



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Fifth Semi-Annual Report

January - June 1989

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